FARM CREDIT CORPORATION

Annual Report
1987-88

HEAD OFFICE ADDRESS
Farm Credit Corporation
434 Queen Street
P.O. Box 2314
Postal Station D
Ottawa, Ontario
KIP 6J9

Ce rapport annuel est aussi disponible en français

The Honourable
John Wise, P.C., M.P.
Minister of Agriculture
Room 101, E.B.
House of Commons
Ottawa, Ontario
K1A 0A6

The Honourable
Pat Carney, P.C., M.P.
President of the Treasury Board
Room 440 N
Centre Block
Ottawa, Ontario
K1A 0A6

Dear Ministers:

I am pleased to submit, on behalf of the Board of Directors, the Farm Credit Corporation's annual report for the fiscal year ended March 31, 1988.

In accordance with the Financial Administration Act, the report includes financial statements and the auditor's report.

Yours sincerely,

James J. Hewitt
Chairman

CONTENTS

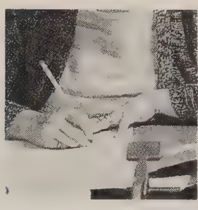
Corporate Profile

Farm Credit Corporation (FCC) was established in 1959 as a Crown agency reporting to Parliament through the Minister of Agriculture. Its role is to provide financial services to enable Canadian farmers to establish, develop and maintain viable farm enterprises.

The Corporation makes and administers farm loans under the authority of the **Farm Credit Act** and the **Farm Syndicates Credit Act,** and administers programs as requested by the federal government.

In addition, counselling and assistance in the planning, organization and development of farm businesses are available to all applicants and borrowers.

The Corporation's head office is in Ottawa. Its operations are decentralized into six regional offices and 102 field and district offices serving all agricultural areas. As of March 31, 1988, FCC had 560 permanent employees.



HIGHLIGHTS

OPERATIONAL	1987-88	1986-87	Change (per cent)
Number of loans approved			
Farm Credit Act	2,674	4,311	- 38.0
Farm Syndicates Credit Act	39	44	- 11.4
Net amount of loans approved ($000)			
Farm Credit Act	$ 206,759	$ 336,400	- 38.5
Farm Syndicates Credit Act	$ 1,367	$ 1,233	+10.9
Average size of loans approved			
Farm Credit Act	$ 124,827	$ 141,530	- 11.8
Loans receivable portfolio			
Number of loans receivable	72,182	75,487	- 4.4
Amount of loans receivable ($000)	$4,701,630	$4,955,941	- 5.1

FINANCIAL	1987-88 ($000)	1986-87 ($000)	Change ($000)
Results of operations			
Interest income	379,999	479,107	- 99,108
Net interest expense	87,100	4,980	+82,120
Provision for loan losses	393,419	98,322	+295,097
Loss for the year	511,838	132,490	+379,348
Non-performing loans			
Total owing on non-performing loans	1,056,700	695,900	+360,800
Reduction of interest income due to non-accrual	130,800	55,400	+75,400
Financial position at year-end			
Total assets	4,307,191	4,908,640	- 601,449
Total liabilities	4,943,820	5,033,431	- 89,611
Capital	218,333	218,333	—
Deficit	854,962	343,124	+511,838
Funds provided by (used in)			
Financing activities	(89,628)	20,897	- 110,525
Repayment by farmers	328,360	323,198	+5,162
Loans disbursed to farmers	(240,626)	(315,060)	- 74,434

Chairman's Report

Since the Farm Credit Corporation (FCC) was established in 1959, it has played an important role in the development and expansion of Canadian agriculture. Many farmers acknowledge that long-term financing through FCC has been an integral part of their management plans and has enabled them to achieve financial security.

Other farmers, particularly more recent entrants, have not been able to achieve financial stability because of economic events over which they had little control. The market forces that have affected the farm community have, in turn, significantly affected the Corporation. In short, "as goes the farmer, so goes Farm Credit Corporation".

FCC has ended this fiscal year with a loss from operations of $511.8 million, and a deficit of $854.9 million. It is clear that the Corporation cannot sustain losses of this magnitude and remain viable.

At the time of my appointment as Chairman, and that of Gerald Penney as Vice-Chairman in December 1987, Farm Credit Corporation was at a crossroads in its history. Although FCC's only client is the farmer, and our "raison d'être" is to serve the farm community, we are faced with a serious financial dilemma. It is necessary to review our operations, our policies and programs to determine FCC's role in the future. If we are to survive, we have to identify and build on our strengths while dealing with our weaknesses.

We recognize that the employees are one of the Corporation's greatest assets. Along with their education and experience, the employees have a profound understanding of agriculture, many of them having come from a farming background. Living and working in the rural communities, as most do, makes them keenly aware of the problems experienced by our clients.

The fact that FCC has a Board of Directors and an Advisory Committee largely made up of experienced farmers further strengthens the Corporation's ties with agriculture. It also ensures that the concerns of farmers are always considered when policy decisions are made.

On behalf of the Board, management and staff, I would like to thank Eiliv H. Anderson and Paul Babey for their years with the Corporation as Chairman and Vice-Chairman. During their tenure, they helped the Corporation become a leading source of research on farm finance and this has given it a high profile in the agricultural community.

This research capability has led FCC to be innovative in program design. The Shared Risk Mortgage and the Commodity-based Loans (CBL) are two examples of programs that were developed by FCC staff to respond to the specific needs of today's farmers.

In December 1987, recognizing FCC's need to rebuild and our current financial situation, the Prime Minister announced support for the Corporation. The Commodity-based Loan Program was extended to provide for approvals of up to $150 million per year for the next three years. To allow FCC to participate in the Farm Debt Review Board process without increasing costs to future borrowers, the government allocated an additional $100 million per year for the next three years. The Prime Minister also announced the deferment of a loan payment of $103 million, due in January 1988. This indication of support from government is greatly appreciated.

Since December, we have appeared before the Standing Committees on Agriculture of the House of Commons and the Senate. On each occasion, in addition to reporting on the Corporation's activities, we received comments from the committee members on the Corporation's role.

Consultations with FCC's Board and Advisory Committee and representatives of various farm groups continue to be important steps in the evaluation process.

At the direction of the executive, the Corporation's management and staff are currently evaluating FCC policies and programs, and reviewing our operations across Canada. Upon completion of this in-depth analysis, a recovery plan will be presented to the Minister of Agriculture for review and approval. This plan will set the stage for FCC to respond to the needs of Canadian farmers in the 1990's and beyond.

1987-88 in Review

During this fiscal year, FCC directed more resources to the administration of problem accounts. The government's moratorium on FCC foreclosure actions was lifted on May 1, 1987. Subsequently, FCC resumed its loan administration activities in cooperation with the Farm Debt Review Boards.

To facilitate arrangements with farmers under the federal Farm Debt Review process without increasing the cost of credit to future FCC borrowers, the government established a fund in 1986 that the Corporation could access. Thus far, a total of $46.5 million has been offered to assist farmers.

In 1987-88, through legal actions and voluntary transfers, the Corporation acquired 692 properties. As FCC is in the business of providing financial services and not managing properties, we are seeking ways to return these properties to private ownership at a fair and reasonable value.

During this fiscal year, overall demand for long-term credit decreased. It was evident that the farmers FCC serves were looking at ways to consolidate rather than expand their operations. The current financial restructuring of the farm sector has been reflected in FCC's loan portfolio, which decreased from 75,487 accounts for $4.9 billion outstanding on March 31, 1987, to 72,182 accounts for $4.7 billion on March 31, 1988.

Under the Commodity-based Loan Program, which was developed to provide FCC clients in financial difficulty with an improved cash flow, 764 loans were approved for $134.4 million. Even though the demand under this program was lower than anticipated, an internal survey of clients indicates a high level of satisfaction with it. We are currently reviewing the CBL program to see how it can be improved.

One of the major items in this year's financial statements is the allowance for loan losses which has increased from $219 million at March 31, 1987 to $500 million. The general decline in farmland values in recent years has resulted in a lower collateral position for the Corporation on its loan portfolio. This, coupled with the financial difficulties and increasing uncertainties facing many of FCC's borrowers, has led directly to the need for the increase in the Corporation's allowance. The Corporation has also strengthened the process by which it identifies its non-performing loans. It is expected that the earlier recognition of non-performing loans will in turn allow the Corporation to more effectively counsel and serve these borrowers in times of financial stress.

From January to March 1988, the Corporation, in cooperation with Agriculture Canada, Statistics Canada and the provinces, initiated a farm survey to identify changes in the financial structure of Canadian agriculture. This survey is an update of the 1981 and the 1984 surveys which proved valuable in tracking the financial situation of farmers across the country. The data obtained will help governments to develop policies and programs to serve agriculture.

Outlook for 1988-89

Forecasts indicate that over the medium-term, total farm debt will decrease to approximately $17 billion from the high of $22.6 billion in 1985. In 1988-89, the demand for loans from FCC is not expected to exceed the 1987-88 level.

The coming year will be a year of rebuilding for Farm Credit Corporation. The development of innovative programs will continue to occupy FCC staff time. Any programs undertaken by the Corporation must be self-supporting, either through the revenues they generate or through government appropriation. It will be crucial for FCC to identify the long-term costs and benefits of all programs before implementation.

Along with this cost recovery approach on operations, we will require the government's support in the financial restructuring of the Corporation.

The experience of the last decade demonstrates that with improved business management practices farmers and lenders can better monitor the progress of farm businesses. This will allow both farmer and lender to make better decisions and to correct problems as they occur.

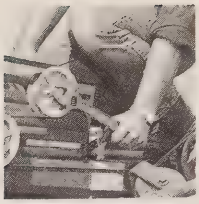
The management of acquired properties will present a challenge for FCC during the next fiscal year. Real estate marketing is a time-consuming activity, and FCC staff are fully occupied in lending and loan administration. Therefore, it will be a priority to find the most efficient way to put these properties back in the hands of farmers.

The management of accounts in arrears will continue to be a critical activity for the Corporation. Although the number of cases is actually decreasing, the dollar value is still increasing because a high proportion of the accounts are seriously in arrears. Corporation staff will continue to be firm but fair in their approach to collections and the most serious cases will be channelled through the Farm Debt Review Boards.

The Corporation is indeed at a crossroads in its history. FCC needs the cooperation and financial support of the government as well as the continued dedication of its staff to provide effective services to its clients. It faces the challenge of developing new programs and policies which will meet the needs of Canadian farmers as we move towards the twenty-first century.

James J. Hewitt

James J. Hewitt
Chairman



Report on 1987-88 Corporate Objectives

Objective 1

SERVICE TO FARMERS ■ To meet the financial needs of Canadian farmers by amending, developing and delivering programs and services appropriate to present and future circumstances in the farm sector.

In 1987-88, FCC approved $134.4 million in Commodity-based Loans. Several commodity price indices were added to accommodate borrowers and to more closely relate loan payments to their repayment abilities.

FCC participated in the Farm Debt Review process and as of March 31, 1988 had offered $46.5 million in concessions to farmers.

Other methods of marketing and selling FCC's properties were evaluated to minimize the increase of real estate holdings.

The Corporation began a farm survey in cooperation with Agriculture Canada and Statistics Canada and some provincial governments to obtain updated information on the financial characteristics of Canadian farmers. The results will be useful in adjusting FCC's services and designing new programs to meet the needs of farmers.

Objective 2

HUMAN RESOURCES ■ To be considered consistently one of the most progressive organizations to work for in Canada.

The Corporation believes that its strength lies in the quality of its staff. It promotes working conditions that encourage staff to develop innovative ideas and solutions to problems.

To support this philosophy, the Corporation:

- offered promotional opportunities to FCC staff first;
- introduced an improved dental plan that includes family coverage;
- evaluated and improved the language training program to help staff become bilingual and meet the linguistic requirements of their positions; and
- strengthened a training plan to address needs in appraisal training, computer applications and management training.

FCC also strengthened the human resources planning function and introduced a more formal planning framework to assist management in determining resource requirements.

Objective 3

ORGANIZATIONAL STRUCTURE ■ To organize, structure and operate at maximum effectiveness.

The Corporation initiates organizational reviews when necessary. Last year, Finance, Lending, Management Services and two regions underwent organizational changes to make them more flexible and responsive to the needs of FCC clients.

FCC initiated a formal review and challenge process to ensure that alternative courses of action are fully analyzed and costed before management decisions are taken.

Objective 4

FINANCIAL PERFORMANCE ■ To optimize the Corporation's financial performance by applying sound business principles and practices.

FCC's worsening financial position reflects the extreme economic difficulties farmers face. A thorough review was initiated to assess the Corporation's financial position and to outline corrective actions.

FCC adjusted many of its original performance targets for 1987-88. The major adjustment was a significant increase in the provision for loan losses. The Corporation also revised its criteria for determining the risks of lending to reflect a more appropriate and responsive measure of risk under current conditions.

Additional effort was required from staff due to increased workload in arrears collections, property administration and managing the administrative complexities of the Commodity-based Loan Program. Despite this, FCC completed the year with \$35.3 million of administrative expenses which was within its budget of \$36.7 million.

Gary Huffman is 20 years old. He graduated from Ridgetown Agricultural College in 1986. FCC is helping him build a farming operation by financing the 100 acres of pasture he bought in Kent County, Ontario.

1988-89 OBJECTIVES

Primary Objective

To restructure and reorganize Farm Credit Corporation into an economically viable position so that it may respond to the financial needs of Canadian farmers.

Secondary Objectives

To explore and develop new services for the benefit of Canadian farmers.

To attract, develop and maintain adequate numbers of well-trained, dedicated employees.

To optimize performance by applying sound business principles and practices.

Bill Brant owns a dairy farm on the Tyendinaga Indian Reserve. An FCC loan helped him get established.

Lending Operations

Lending Under the Farm Credit Act

The market for long-term farm credit has been shrinking since 1983, but FCC has maintained its 11.5 per cent share.

During 1987-88, the Corporation approved 2,674 loans for a net amount of $206.8 million. This excludes the amount for refinancing existing FCC loans. The Corporation offered loans with five, 10-, and 15-year or longer fixed-interest terms. In addition to regular loans, the Corporation offered Shared Risk Mortgages, with six-year terms under which the borrower and FCC share the costs or benefits of fluctuating interest rates. Loans under Section 33 of the Farm Credit Act, to beginning farmers for the purpose of establishing their businesses, were for five-year terms, and Commodity-based Loans were for 10-year terms. Table 1 presents the number and amount of loans by interest term.

For the second year, the Corporation offered Commodity-based Loans. Under this program, $134.4 million was approved, for 764 FCC clients. Of this amount, $119.0 million refinanced FCC loans, and $15.4 million was additional credit.

Section 33 loans accounted for 6.0 per cent of five-year mortgages approved during the year, and Commodity-based Loans made up 78.6 per cent of 10-year term loans.

Appeal Boards composed of practicing farmers of proven ability and judgement reviewed the cases of 58 farmers who were not satisfied with the Corporation's decision on their loan applications. As a result, FCC modified its actions in 11 loan applications during the year.

Farm Financial Management

All Corporation applicants and clients are eligible to receive counselling in farm planning and financial management, as well as referrals to other federal and provincial agencies. As of March 31, 1988, 2,201 farmers, compared with 2,666 a year earlier, were enlisted in the formal advisory services program offered by FCC. This figure does not include clients in financial difficulty who received counselling through such government programs as the Farm Debt Review Boards or the Canadian Rural Transition Program.

Loan Administration

At year-end 81.7 per cent of accounts were in good standing, compared with 80.5 per cent in 1986-87. At March 31, 1988, the total owing on accounts in good standing represented 67.8 per cent of the loans receivable portfolio. Before taking into account non-performing loans, the amount of arrears increased 9.1 per cent from last year to reach $376.7 million (Table 5).

Field staff assisted borrowers who were in arrears, but solutions were limited because of low commodity prices. The Corporation considered every account in arrears individually, before taking any action. Where there was a reasonable chance that borrowers could meet their obligations, the Corporation extended the repayment period to allow the farmers to continue operating their farms.

A Portfolio Risk Management Program was developed four years ago. This program analyses FCC's loan loss experience by various categories to estimate the risk of losses in

the future. It is adjusted to reflect the most appropriate estimates of risk under existing conditions. Arrears on loans approved since April 1, 1984 amounted to 2.5 per cent of principal not due, compared with 18.4 per cent on loans approved between April 1, 1980 and March 31, 1984.

The government moratorium on foreclosures by FCC was lifted May 1, 1987. This allowed the Corporation to resume normal collection and recovery activity, and facilitated efforts to resolve difficult situations through the Farm Debt Review process.

Property Management

FCC acquired 692 properties in 1987-88, versus 294 last year, and sold 55 farms under power of sale. The Corporation sold 257 properties to which it held title. As of March 31, 1988, the Corporation had 911 properties on hand. Managing these properties created a significant workload for FCC staff.

Where local real estate markets were strengthening, properties were sold at market rates. FCC leased farmland and building sites at market rates so that local land markets were not depressed by an oversupply of farm properties for sale. To react quickly to changing market conditions and to continue attempts to sell these properties, many leases were for one-year terms. FCC has also made 250 three-year leases which have allowed clients to continue their farming operations. Of the 911 properties on hand as of March 31, 1988, 37.5 per cent were leased back to the original owners so that farmers who have the skills and resources could re-establish their farm operations. Net realized loan losses and losses on the sale of real estate were $16.1 million, compared with $11.6 million in 1986-87. The write-down of real estate held for resale to its net realizable value amounted to $96.3 million, compared with $23.5 million in 1986-87.

FCC participated in the Farm Debt Review process with 2,279 clients and 1,568 cases have been resolved. FCC's participation in the debt review process has been time-consuming and has added considerably to the workload of the Corporation's staff.

The principles used in making concessions are based on an assessment of the risks and potential for financial success. FCC will not make concessions that are proportionately greater than those agreed to by other secured creditors. About 37 per cent of the funds were used for the leaseback of property to the original owner, 27 per cent for the forgiveness of arrears, 13 per cent to reduce interest rates, 13 per cent for selling back building sites to farmers and the remaining 10 per cent for other arrangements. The Government of Canada has committed up to $100 million per year for the next three fiscal years for concessions granted by FCC to farmers.

Table 1 **Loans approved in 1987-88 under Farm Credit Act (by interest term)**

	5-year	6-year	10-year	15-year or longer
Number	836	576	972	290
Net amount ($000)	82,075	57,860	33,650	33,174
% of total	31.3	21.6	36.3	10.8

Table 2 **Purposes for which loans were approved**

	Regular		Commodity-based	
	1987-88 (Per cent)	1986-87 (Per cent)	**1987-88 (Per cent)**	1986-87 (Per cent)
New units	**11.9**	13.8	**0.1**	0.0
Additional land	**30.0**	33.3	**0.8**	1.4
Repay land-secured debts	**23.5**	18.5	**90.7**	90.9
Repay other debts	**14.7**	16.9	**4.4**	5.5
Permanent improvements	**10.5**	8.6	**1.6**	0.7
Equipment	**1.3**	1.5	**0.2**	0.1
Livestock	**1.1**	1.2	**0.1**	0.1
Miscellaneous	**7.0**	6.2	**2.1**	1.3

Table 3 **Financial characteristics of farm operations borrowing from FCC**

	Regular		Commodity-based	
	1987-88 (Average)	1986-87 (Average)	**1987-88 (Average)**	1986-87 (Average)
Total assets	**$616,725**	$577,048	**$501,165**	$516,175
Per cent equity	**57.3**	55.9	**34.1**	33.6
Loan approved	**$104,394**	$109,197	**$175,910**	$204,731
Loan-to-security ratio	**.58**	.60	**.68**	.69

Table 4 **Loans approved by province (Farm Credit Act)**

	1987-88		1986-87	
	Number	**Net Amount ($000)**	Number	Net Amount ($000)
British Columbia	**118**	**16,337**	194	26,458
Alberta	**256**	**15,788**	610	32,927
Saskatchewan	**1,046**	**66,069**	1,767	113,769
Manitoba	**207**	**13,816**	360	28,108
Ontario	**485**	**51,210**	666	78,156
Quebec	**426**	**34,226**	598	46,806
New Brunswick	**67**	**4,536**	62	5,695
Nova Scotia	**4**	**239**	7	862
Prince Edward Island	**52**	**2,904**	32	2,901
Newfoundland	**10**	**1,503**	9	380
Yukon Territory	**3**	**131**	6	338
Canada	**2,674**	**206,759**	4,311	336,400

Throughout this mediation process, FCC was mindful of its responsibilities to all of its borrowers. With 80 per cent of accounts up-to-date, its objective must be to encourage those who are paying on time to continue to do so. There are no solutions that will allow all borrowers in financial difficulty to continue in agriculture. For some, the only alternative is to exit from farming. Maintaining this delicate balance of fairness to all of its borrowers was one of FCC's biggest challenges in 1987-88.

Loans Under the Farm Syndicates Credit Act

Syndicate loans are used for the shared purchase and use of farm machinery, buildings and installed equipment. In 1987-88, 39 loans for $1.4 million were approved to syndicates of three or more individuals, the majority of whom were engaged in farming. At the end of the fiscal year, 88 accounts were in arrears for $0.9 million compared with 126 accounts for $1.6 million a year earlier. The Corporation now has 383 loans for $6.0 million outstanding under this Act.

Under the Farm Syndicates Credit Act, the present maximum loan is $15,000 per qualifying member, and $100,000 for a syndicate. In 1988-89, there will be few loans approved under this Act, given current machinery and building costs.

Sukhjinder Senghera and her husband Karnail grow English cucumbers in their Richmond (B.C.) greenhouse. After renting a property for a few years they built enough equity to buy a farm. They used an FCC loan to build a modern greenhouse.

Financial Operations

Results of Operations

In 1987-88, the Corporation incurred a loss of $511.8 million, compared with a loss of $132.5 million during 1986-87. This can be attributed to a larger provision for loan losses resulting from the risks involved in lending in an unstable agricultural economy.

A refinement in the identification of non-performing loans lead to an increase in net interest expense of $82.1 million from 1986-87. The reduction of interest income due to non-performing loans amounted to $130.8 million for the year, compared with $55.4 million in 1986-87.

In 1987-88, administrative expenses increased by $2.3 million to $35.3 million. This increase is due primarily to the additional workload associated with the management of accounts in arrears as well as FCC's participation in government programs such as the Farm Debt Review process and the Commodity-based Loan Program. Administrative expenses were 0.75 per cent of the loans receivable portfolio compared with 0.67 per cent for 1986-87. This percentage also increased because there were fewer loans receivable in the portfolio as a result of write-offs and transfers to real estate.

The Corporation's deficit of $854.9 million at March 31, 1988 net of the contributed capital of $218.3 million, resulted in a deficiency of $636.6 million.

Allowance for loan losses

The purpose of the allowance for loan losses is to reduce the carrying value of the loans receivable portfolio to an amount which is estimated to be collectible in light of current conditions. At March 31, 1988, the allowance was $500.0 million compared to $219.0 million at March 31, 1987. The provision for loan losses, which is charged to operations, increased from $98.3 million in 1986-87 to $393.4 million in 1987-88.

This dramatic increase is due to a number of events and conditions. They include the continued decline in land values during 1987-88, management's expectation that this decline will continue, and uncertainty regarding commodity prices, climatic conditions, and the impact of various federal and provincial government legislation and initiatives.

Cash Flow

In 1987-88, there was a net cash outflow of $69.5 million which includes a reduction of short-term borrowings of $89.6 million. The Corporation began the year with $88.5 million in cash and short-term investments and closed the year with $19.0 million.

Table 5 **Loans receivable portfolio as at March 31, 1988, including non-performing loans (in thousands of dollars)**

	Number	Principal Not Due	Principal and Interest in Arrears	Accrued Interest Not Due	Amounts Held for Future Instalments	Net Total
Loans to farmers (F.C.A.)						
British Columbia	2,154	160,679	11,732	7,273	(4,873)	174,811
Alberta	12,134	614,627	67,126	38,405	(7,479)	712,679
Saskatchewan	23,687	1,453,626	149,231	92,071	(12,722)	1,682,206
Manitoba	7,124	369,212	46,986	19,121	(5,763)	429,556
Ontario	17,101	1,181,023	85,043	48,415	(28,294)	1,286,187
Quebec	6,956	418,924	7,657	16,548	(5,238)	437,891
New Brunswick	881	55,555	2,338	2,567	(1,693)	58,767
Nova Scotia	101	4,910	349	168	(166)	5,261
P.E.I.	851	42,893	3,557	2,318	(835)	47,933
Newfoundland	116	9,926	785	388	(315)	10,784
Canada	71,105	4,311,375	374,804	227,274	(67,378)	4,846,075
Loans to farm syndicates (F.S.C.A.)						
British Columbia	9	167	21	8	0	196
Alberta	39	455	132	32	(9)	610
Saskatchewan	37	481	177	28	(1)	685
Manitoba	56	397	218	23	(17)	621
Ontario	96	1,140	201	53	(27)	1,367
Quebec	120	1,718	160	77	(13)	1,942
New Brunswick	18	252	27	11	(8)	282
Nova Scotia	1	14	0	2	0	16
P.E.I.	2	41	0	2	(2)	41
Newfoundland	5	183	5	7	(4)	191
Canada	383	4,848	941	243	(81)	5,951
Loans receivable from real estate sales (F.C.A.)						
British Columbia	51	3,442	179	154	(45)	3,730
Alberta	70	3,332	76	195	(67)	3,536
Saskatchewan	23	723	13	40	(27)	749
Manitoba	39	2,242	365	132	(7)	2,732
Ontario	346	19,255	1,032	884	(214)	20,957
Quebec	135	6,575	148	310	(51)	6,982
New Brunswick	16	806	33	46	(1)	884
Nova Scotia	2	46	0	2	(1)	47
P.E.I.	8	355	6	38	(3)	396
Newfoundland	4	326	21	13	(8)	352
Canada	694	37,102	1,873	1,814	(424)	40,365
Gross loans receivable	72,182	4,353,325	377,618	229,331	(67,883)	4,892,391
Adjustment to principal and interest relating to non-performing loans		(41,092)	(93,609)	(56,060)	–	(190,761)
Loans receivable	72,182	4,312,233	284,009	173,271	(67,883)	4,701,630

The main sources of funds for the Corporation in 1987-88 were the loan repayments, including interest, and prepayments received from farmers which totalled $706.9 million ($726.0 million in 1986-87). Cash proceeds from the sale of real property totalled $33.1 million, an increase of $13.6 million over the year before.

During the year, loans disbursed to farmers net of refinancings totalled $240.6 million ($315.0 million in 1986-87).

Borrowings

Unlike recent years, all current FCC borrowings, both short-and long-term, were from the Government of Canada. Prior to the development of a corporate plan outlining recommendations for financial restructuring, the government instructed FCC not to incur any net new borrowings in 1987-88.

Short-term funding from the Consolidated Revenue Fund was arranged to repay maturing money market promissory notes and to fund a portion of the Shared Risk Loan Program. The Corporation began the year with $271.6 million outstanding and ended the year with $181.9 million outstanding.

The Corporation borrowed $345.6 million in long-term funds to refinance maturing debt and to prepay and restructure other debt. This was done in conjunction with the financing of the Commodity-based Loan Program.

Interest Margin

For this fiscal year, the average cost of long-term borrowing was 9.54 per cent and for short-term portfolio borrowing, it was 9.46 per cent. At the same time, the weighted average interest rate on loans disbursed was 10.6 per cent. The margin obtained on lending during the fiscal year was 1.08 per cent.

FINANCIAL STATEMENTS

Management's Responsibility for Financial Statements

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan losses, that are necessarily based on management's best estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada and which have been consistently applied. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations. In addition, the internal and external auditors have full and free access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon.

James J. Hewitt

James J. Hewitt, C.M.A.
Chairman and
Chief Executive Officer

W. G. Mann

William G. Mann, C.A.
Chief Financial Officer

Auditor's Report

To the Minister of Agriculture

I have examined the balance sheet of Farm Credit Corporation as at March 31, 1988 and the statements of operations and deficit and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1988 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part XII of the Financial Administration Act and regulations, the Farm Credit Act and the by-laws of the Corporation.

Kenneth M. Dye

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Ottawa, Canada
June 7, 1988

Farm Credit Corporation
Balance Sheet
as at March 31, 1988

	1988	1987
	(in thousands)	
Assets		
Cash and short-term investments	$ 18,981	$ 88,494
Accounts receivable	632	1,678
Loans receivable (Note 3)	4,701,630	4,955,941
Less: Allowance for loan losses (Note 4)	500,000	219,000
	4,201,630	4,736,941
Real estate	63,000	53,771
Fixed assets	3,481	2,957
Unamortized debt discount and issue expenses	19,467	24,799
	$4,307,191	$4,908,640
Liabilities		
Accounts payable and accrued liabilities	$ 3,970	$ 3,779
Short-term notes	181,943	271,571
Provision for employee termination benefits	2,340	4,190
Loans payable (Notes 5 and 6)	4,755,567	4,753,891
	4,943,820	5,033,431
Deficiency of Canada		
Contributed capital (Note 7)	218,333	218,333
Deficit	(854,962)	(343,124)
	(636,629)	(124,791)
	$4,307,191	$4,908,640

Approved by:

The accompanying notes are an integral part of the financial statements.

James J. Hewitt. W. G. Mann

James J. Hewitt, C.M.A.
Chairman and Chief Executive Officer

William G. Mann, C.A.
Chief Financial Officer

Farm Credit Corporation

Statement of Operations and Deficit

for the year ended March 31, 1988

	1988	1987
	(in thousands)	
Interest income		
Loans receivable	$377,867	$465,380
Investments	2,132	13,727
	379,999	479,107
Interest expense		
Loans payable	452,045	462,102
Short-term notes	15,054	21,985
	467,099	484,087
Net interest (income) expense	87,100	4,980
Provision for loan losses (Note 4)	393,419	98,322
	480,519	103,302
Other income	(4,019)	(3,885)
Loss before administrative expenses	476,500	99,417
Administrative expenses		
Salaries and employee benefits	25,423	23,947
Office accommodation and equipment	4,035	3,913
Travel and relocation	2,505	2,358
Other	3,375	2,855
	35,338	33,073
Loss for the year	511,838	132,490
Deficit at beginning of the year	343,124	210,634
Deficit at end of the year	$854,962	$343,124

The accompanying notes are an integral part of the financial statements.

Farm Credit Corporation
Statement of Changes in Cash Position
for the year ended March 31, 1988

	1988	1987
	(in thousands)	
Operating activities		
Loss for the year	$(511,838)	$(132,490)
Items not involving cash		
Provision for loan losses	393,419	98,322
Increase in accrued interest on loans receivable	(3,150)	(53,236)
Increase in accrued interest on loans payable	1,676	5,077
Other	5,595	6,053
	(114,298)	(76,274)
Loans to farmers	(240,626)	(315,060)
Loans receivable repaid	328,360	323,198
Proceeds from disposal of real estate	33,060	19,465
Government compensation for loan losses	15,000	5,000
Other	(1,381)	(1,080)
Cash provided by (used in) operating activities	20,115	(44,751)
Financing activities		
Loans from Canada	345,600	—
Loans repaid to Canada	(345,600)	(591,155)
Loans from capital markets	—	581,554
Debt issue expenses	—	(3,576)
Net increase (decrease) in short-term notes	(89,628)	34,074
Cash provided by (used in) financing activities	(89,628)	20,897
Net decrease in cash and short-term investments	(69,513)	(23,854)
Cash and short-term investments at beginning of the year	88,494	112,348
Cash and short-term investments at end of the year	$ 18,981	$ 88,494

The accompanying notes are an integral part of the financial statements.

Farm Credit Corporation
Notes to Financial Statements
March 31, 1988

1. The Corporation

Farm Credit Corporation ("FCC" or "the Corporation") was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is a Crown corporation named in Schedule C, Part I of the Financial Administration Act. Its role is to provide financial services to enable Canadian farmers to establish, develop and maintain viable farm enterprises.

The Corporation makes and administers farm loans under the authority of the Farm Credit Act and the Farm Syndicates Credit Act, and administers programs as assigned by the federal government.

In view of the deficiency of Canada's equity in the Corporation and FCC's current financial condition, discussions are underway with the government to develop a financial recovery plan. A wide range of options is being considered.

The Corporation operates in one business segment, providing long-term loans to Canadian farmers.

2. Significant accounting policies

A. ALLOWANCE FOR LOAN LOSSES

The allowance for loan losses represents an estimate of probable losses on the accounts outstanding at the end of the year and is based on a review of collectibility of outstanding loans. The allowance has a specific component which is based on the review of outstanding loans in arrears and a general component, which is prudential in nature, to provide for loan losses which have not yet been specifically identified. With respect to this estimate of losses, the Corporation recognizes that future economic and agricultural conditions are not predictable and, therefore, their impact on the collectibility of loans is uncertain.

Actual loan losses and writedowns of acquired real estate to net realizable value are charged to the allowance while recoveries are credited to the allowance. The adjustment of the allowance to the level regarded by management as being appropriate is charged to operations as the provision for loan losses.

B. REVENUE RECOGNITION

Interest income is recorded on an accrual basis until such time as a loan is classified as non-performing. Loans are classified as non-performing when principal or interest is six months past due unless the loan is well secured, or when circumstances indicate doubt as to the ultimate collectibility of principal or interest. When a loan is classified as non-performing, uncollectible accrued interest recognized in the year is reversed, and uncollectible accrued interest recognized in previous years is provided for in the allowance for loan losses.

Payments received on non-performing loans are generally applied to principal, unless management has determined that the loans do not require a specific provision for loss. In this case, interest income is recognized on a cash basis.

Non-performing loans may return to the accrual status when principal and interest are current and ultimate collection is reasonably assured.

Where a non-performing loan is refinanced or renegotiated, uncollected interest is capitalized and recognized as income. The refinanced loan is carried on an accrual basis as long as there is reasonable assurance regarding the ultimate collectibility of principal and interest, and principal or interest is not six months past due.

Loan fees and charges are recorded as other income when earned.

C. REAL ESTATE

Real estate represents farm property acquired in the process of administering the outstanding loans receivable and must be disposed of within five years of acquisition or such further period as the Governor in Council may prescribe. It is carried at the lower of cost and net realizable value.

D. FIXED ASSETS

Fixed assets are recorded at cost less accumulated depreciation or amortization. Depreciation and amortization are generally determined using the straight-line method over the estimated useful lives of the related assets.

E. DEBT DISCOUNT AND ISSUE EXPENSES

Discounts and expenses relating to the issuance of debt are amortized on a straight-line basis over the life of the debt and included in interest expense on loans payable.

F. TRANSLATION OF FOREIGN CURRENCIES

Loans payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are included with unamortized debt discount and issue expenses. These amounts are amortized by charges to interest expense over the lives of the obligations on a straight-line basis. The interest payable in foreign currencies on this debt is also hedged by currency conversion agreements and is translated into Canadian dollars at the contract rates.

G. PENSION PLAN

The Corporation participates in the Public Service Superannuation Plan administered by the Government of Canada. Contributions to the Plan are made equally by both employees and the Corporation. These contributions are expensed during the year in which the services are rendered.

H. EMPLOYEE TERMINATION BENEFITS

On termination of employment, employees are entitled to severance benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

I. INCOME TAXES

The Corporation records income taxes on the tax allocation basis which recognizes the income tax effect of transactions when they are recorded in accounting income, regardless of when such items are recognized for tax purposes.

3. Loans receivable

	Annual interest rate %	1988	1987
		(in thousands)	
Loans to farmers, secured by mortgages	5-7⅞	$ 484,682	$ 556,501
	8-10⅞	2,119,134	2,067,218
	11-12⅞	1,443,065	1,558,875
	13-16¾	608,433	730,084
		4,655,314	4,912,678
Loans to farm syndicates, secured by notes	6¼-17½	5,951	7,573
Loans receivable from real estate sales, secured by agreements for sale or mortgages	5-15¾	40,365	35,690
		$4,701,630	$4,955,941

Amounts due by fiscal year are as follows:	1988	1987
Principal past due	$ 63,533	$ 56,325
1988	—	142,476
1989	147,069	163,554
1990	492,665	581,787
1991	267,072	289,975
1992	306,063	316,935
1993	296,655	240,567
1994 and beyond	2,795,921	2,776,783
	4,368,978	4,568,402
Accrued interest - current	112,176	96,944
- arrears	220,476	290,595
	$4,701,630	$4,955,941

At March 31, 1988 the Corporation had 7,950 loans representing $1,056.7 million of loans receivable classified as non-performing (1987 - 4,211 representing $695.9 million). During the year, interest not recognized on non-performing loans amounted to $130.8 million (1987 - $55.4 million). At March 31, 1988 the accumulated interest not recognized on outstanding non-performing loans amounted to $190.8 million (1987 - $95.4 million).

Prepayments of principal from farmers of $157.9 million (1987 - $215.9 million) were received during the year.

During the year, Commodity-based Loans in the amount of $167.8 million (1987 - $242.6 million) were disbursed. Of this amount, $10.0 million (1987 - $13.5 million) was used to pay arrears on the Corporation's previous loans.

4. Allowance for loan losses

The allowance for loan losses is management's best estimate of the probable losses on outstanding accounts. In this regard, a number of events and conditions are not predictable and their impact on losses is uncertain. These include future land values, commodity prices, federal and provincial governments' legislation and initiatives, climatic conditions, and so on; all of which could affect the Corporation's loan losses. Management has made its best estimate of the effect of these events and conditions on loan losses.

In addition, as discussed in Note 11, the federal government has agreed to reimburse the Corporation for concessions made to farmers over the next three years as a result of its participation in the Farm Debt Review Board process. The nature of the concessions to be made through the process and the extent to which they will reduce the Corporation's loan losses is not currently determinable. Accordingly, the impact of the Farm Debt Review process has not been considered in establishing the allowance for loan losses. Such amounts are credited to operations as the benefits of the concessions are passed to the farmers.

A summary of the changes in the allowance for loan losses follows:

	1988	1987
	(in thousands)	
Allowance for loan losses		
Balance at beginning of the year	$219,000	$155,800
Actual loan losses and losses on the sale of real estate, net of recoveries	(16,128)	(11,622)
Write-down of real estate to net realizable value	(96,291)	(23,500)
Provision for loan losses	393,419	98,322
Balance at end of the year	$500,000	$219,000

5. Loans payable

	Annual interest rate %	1988	1987
		(in thousands)	
Loans from Canada, secured by notes			
Farm Credit Act	6-7¾	$ 463,604	$ 538,748
	8-10¾	1,686,685	1,460,830
	11-12	1,148,187	1,298,898
		3,298,476	3,298,476
Farm Syndicates Credit Act	9¼-15½	6,030	6,030
		3,304,506	3,304,506
Loans from capital markets, secured by notes			
Farm Credit Act	8¾ - 12¼	1,328,156	1,328,156
		4,632,662	4,632,662
Accrued interest		122,905	121,229
		$4,755,567	$4,753,891

	1988	1987
Amounts due by fiscal year are as follows:		
1988	$ —	$ 201,851
1989	220,787	209,756
1990	641,371	855,290
1991	463,864	454,229
1992	435,554	334,697
1993	660,983	205,494
1994 and beyond	2,210,103	2,371,345
	4,632,662	4,632,662
Accrued interest	122,905	121,229
	$4,755,567	$4,753,891

6. Limits on borrowing

The Farm Credit Act limits the aggregate amount outstanding of the principal borrowings by the Corporation pursuant to the Act to twenty-five times the capital of the Corporation. At March 31, 1988 the Corporation's outstanding borrowings under this Act, comprising short-term notes of $179.0 million and loans payable of $4,617.6 million, were 21.97 times the capital of $218.3 million (1987 — 22.39 times).

The Farm Syndicates Credit Act limits the loans from Canada pursuant to the Act to $25.0 million dollars. At March 31, 1988 the Corporation's loans from Canada under this Act were $6.0 million (1987 — $6.0 million).

The Corporation continues to be restricted in its borrowings. Both short- and long-term funding requirements must be met from the Consolidated Revenue Fund of the Government of Canada, and only with the specific approval of the Governor in Council and the Minister of Finance. Further, FCC has been requested to manage its affairs so that, during the next fiscal year, no net increase in total debt will be required.

7. Contributed capital

The contributed capital of the Corporation represents the amount received from Canada under section 12 of the Farm Credit Act. The statutory limit on this amount is $225.0 million (1987 — $225.0 million). During the current year, no capital was contributed by Canada.

8. Income taxes

As at March 31, 1988 the Corporation has available various timing differences of approximately $813.0 million which have not been recognized in the accounts as these will not be utilized in the foreseeable future. They result primarily from differences between the provision for loan losses charged to operations and the amount claimed for tax purposes pursuant to Section 33 of the Income Tax Act.

In addition, the loss carry-forward for income tax purposes, which has not been recognized in the financial statements, amounts to $21.8 million. Of this amount, $7.7 million will expire on March 31, 1993 and $14.1 million on March 31, 1994.

9. Commitments to farmers

As at March 31, 1988 loans to farmers approved but not disbursed amounted to $22.6 million (1987 — $62.2 million). Of this amount, $21.0 million was for regular loan approvals, most of which were approved at rates from 11.75% to 12.25%. The balance of $1.6 million relates to Commodity-based Loans approved at rates of 6% and 9.125%. It is expected that the majority of these loans will be disbursed within the six-month period ending September 30, 1988 from funds to be borrowed by the Corporation at prevailing rates of interest at the time of borrowing.

10. Operating leases

Future minimum lease payments by fiscal year required under operating leases having initial non-cancellable lease terms in excess of one year are as follows:

	(in thousands)
1989	$1,767
1990	1,678
1991	1,402
1992	1,114
1993	785
1994 and beyond	1,087
	$7,833

These leases generally provide for the payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

11. Government programs

In the February 26, 1986 Budget, the Government directed the Corporation to establish a Commodity-based Loan Program for existing clients who are experiencing financial difficulty and who meet certain eligibility criteria. Under this program, reduced interest rates are available to borrowers and the loan principal is indexed to changes in commodity prices. The resulting net cash flow deficiencies, if any, are made up by the Government. During the year, the Corporation received $10.3 million from the Government in respect of these cash flow deficiencies (1987 - $0.9 million).

The Minister of Agriculture has, subject to annual parliamentary appropriation, been authorized to make payments to the Corporation in amounts equal to concessions that the Corporation has granted to farmers under arrangements made pursuant to the Farm Debt Review Act. The Government has allocated up to $270 million for concessions to be granted over the period ending March 31, 1991. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. Since the inception of the Farm Debt Review process, the Corporation has offered $46.5 million in concessions and received $8.1 million in payments. The difference of $38.4 million will be due and received over the next five years.

12. Comparative figures

Certain 1987 comparative figures have been reclassified to reflect the presentation adopted in 1988.

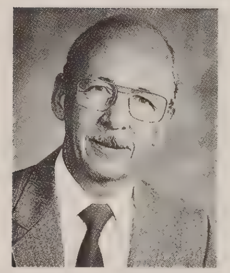
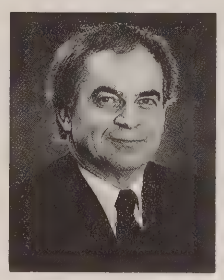
Five-Year Review

OPERATIONAL	1987-88	1986-87	1985-86	1984-85	1983-84
Total loans receivable portfolio					
Number of loans receivable	72,182	75,487	78,183	79,270	80,112
Amount of loans receivable ($000)	4,701,630	4,955,941	4,984,298	4,992,728	4,917,100
Under Farm Credit Act					
Number of loans approved	2,674	4,311	2,278	2,316	5,738
Amount of loans approved gross ($000)	333,788	610,134	246,965	268,941	779,007
Amount of loans approved net ($000)	206,759	336,400	237,683	258,748	758,142
Average size of loans approved ($)	124,827	141,530	108,413	116,123	135,763
Percentage of loans in good standing	81.7	80.5	81.9	84.7	87.6
Percentage of total owing in good standing	67.8	65.1	65.9	69.8	76.4
Under CBL					
Number of loans approved	764	1,459	N/A	N/A	N/A
Amount of loans approved gross ($000)	134,396	298,703	N/A	N/A	N/A
Under Farm Syndicates Act					
Number of loans approved	39	44	37	63	92
Amount of loans approved ($000)	1,367	1,233	1,119	1,584	2,855

FINANCIAL	1987-88	1986-87	1985-86	1984-85	1983-84
Revenues and expenses ($000)					
Interest income	379,999	479,107	485,974	527,261	487,260
Net interest (income) expense	87,100	4,980	(11,269)	(47,279)	(41,440)
Provision for loan losses	393,419	98,322	99,351	46,278	65,708
Administrative expenses	35,338	33,073	34,961	32,086	31,643
Loss for the year	511,838	132,490	121,406	30,178	56,714
Non-performing loans					
Number of non-performing loans	7,950	4,211	—	N/A	N/A
Total owing on non-performing loans ($000)	1,056,700	695,900	—	N/A	N/A
Reduction of interest income due to non-accrual ($000)	130,800	55,400	40,000	N/A	N/A
Financial Position ($000)					
Total assets	4,307,191	4,908,640	5,015,036	4,940,229	4,901,222
Real estate	63,000	53,771	45,805	26,987	14,301
Total liabilities	4,943,820	5,033,431	5,007,337	4,811,124	4,770,339
Equity (Deficiency) of Canada	(636,629)	(124,791)	7,699	129,105	130,883
Selected financial indicators					
Debt-to-equity ratio (Loans payable/equity)	-7.47:1	-38.09:1	618.06:1	36.44:1	36.38:1
Debt-to-capital ratio (Loans payable/capital)	21.78:1	21.77:1	21.79:1	21.55:1	25.07:1
Non-performing loans (Value of non-performing loans/total loans)	22.5%	13.9%	N/A	N/A	N/A

Corporate Directory

Members of the Board

James J. Hewitt, C.M.A.*†
Chairman of the Board and Chief Executive Officer

C. Gerald Penney, C.A.††
Vice-Chairman and Chief Operating Officer

Frank Claydon
Assistant Deputy Minister Agriculture Canada

Blois Dingwell*
Mixed farm operator, Prince Edward Island

George Klosler*
Tobacco, grain, ginseng and hog producer, Ontario

Georges L'Heureux
Dairy farmer, Quebec

Judy A. Lloyd C.M.A.*
Certified Management Accountant, Alberta

Executive Assistant to the Vice-Chairman and Secretary to the Board
Janice Whitters

** Members of the Audit Committee*
† Appointed December 11, 1987
†† Appointed December 14, 1987

Advisory Committee

The Advisory Committee is appointed by the Minister of Agriculture to advise him and the Corporation on lending policy matters. Most members are farmers or representatives of farm organizations.

Garnet Rickard
Chairman
Ontario

Don Knoerr
British Columbia

Don Swenson
Saskatchewan

Edward Mazer
Manitoba

Jack Cumming
Ontario

Jeannine Caron-Giasson, C.A.
Quebec

Leon Bremner
New Brunswick

Keith Barrett
Prince Edward Island

Chairmen of Appeal Boards

Appeal Boards, composed of practicing farmers of proven ability and judgement, are established in each province to hear appeals from farmers who are dissatisfied with the Corporation's decision on their loan applications.

E.T. (Ted) Osborn
British Columbia

Gordon Miller
Alberta

Art Missal
Saskatchewan

Kenneth Lyle Young
Manitoba

Edward J. Mailloux
Ontario

Robert Brochu
Quebec

W. Burris Coburn
New Brunswick

Thomas Meredith
Nova Scotia

Wilbert MacKenzie
Prince Edward Island

Dennis Galway
Newfoundland

Senior Executives

James J. Hewitt, C.M.A.
Chairman and
Chief Executive Officer

C. Gerald Penney, C.A.
Vice-Chairman and
Chief Operating Officer

Janice Whitters
Executive Assistant
to the Vice-Chairman and
Secretary to the Board

Terry Kremeniuk
Director, Research and
Planning

Brian Strom
Director, Lending Operations

Louise Neveu
Director, Management Services

Pierre Laflamme
Director, Corporate Audit

William G. Mann, C.A.
Chief Financial Officer

Thomas R. Robertson
Treasurer

John J. Poirier, C.A.
Controller

Jean-E. Brassard
Legal Counsel

	Regional Offices	District Offices	Field Offices
British Columbia/ Alberta	**George Jones** * Suite 200 595 K.L.O. Road Kelowna, B.C. V1Y 8E7 (604) 762-2416	Kelowna	Abbotsford, Dawson Creek, Kelowna, Prince George
	George Jones * 101 St. Building Suite 1550 10250-101 St. Edmonton, Alberta T5J 3P4 (403) 495-4488 * **Location:** Edmonton	Grande Prairie, Lacombe, Lethbridge, Vegreville, Westlock	Athabasca, Barrhead, Brooks, Calgary, Camrose, Drumheller, Edmonton, Evansburg, Fairview, Falher, Hanna, High Level, Medicine Hat, Olds, Peace River, Stettler, St. Paul, Vermilion, Wainwright, Wetaskiwin
Saskatchewan	**Dave Fraser** 110-2401 Saskatchewan Dr. Regina, S4P 4H9 (306) 780-5610	North Battleford, Prince Albert, Regina, Saskatoon, Swift Current, Yorkton	Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake, Moose Jaw, Rosetown, Tisdale, Weyburn, Wynyard
Manitoba	**Russ Holm** 400-5 Donald St. Winnipeg, R3L 2T4 (204) 983-4039	Brandon, Portage la Prairie, Winnipeg	Arborg, Carman, Dauphin, Killarney, Morden, Neepawa, Swan River, Virden
Ontario	**Bob Aumell** 450 Speedvale Ave. W. Guelph, NlH 7G7 (519) 821-1330	Chatham, Guelph, Lindsay, Nepean, North Bay, Walkerton, Woodstock	Barrie, Campbellford, Cornwall, Essex, Goderich, Kingston, Lambeth, Listowel, New Liskeard, Owen Sound, Simcoe, Stratford, Vineland, Wyoming
Quebec	**Jacques Doran** Champlain Bldg. 2700 Laurier Blvd. Ste-Foy, GlV 4C7 (418) 648-3993	Cap-de-la-Madeleine, Ste-Foy, St-Hyacinthe, St-Jean, Rock Forest	Arthabaska, Drummondville, Granby, Hull, Joliette, Rimouski, Roberval, St-Georges de Beauce, St-Jérôme, Valleyfield
Atlantic	**John van Abbema** Suite 230 1133 St. George Blvd. Moncton, N.B. ElE 4E1 (506) 857-6595	Charlottetown, Moncton	Fredericton, Grand Falls, Sussex, Woodstock, Kentville, Truro, Summerside, St. John's

Farm Credit Corporation Canada

Société du crédit agricole Canada

Canada

FARM CREDIT CORPORATION

Annual Report
1988-89

CONTENTS

Ce rapport annuel est aussi disponible en français

HEAD OFFICE ADDRESS

Farm Credit Corporation
434 Queen Street
P.O. Box 2314
Postal Station D
Ottawa, Ontario
KlP 6J9

The Honourable
Don Mazankowski, P.C., M.P.
Minister of Agriculture
Room 203, S.B.
House of Commons
Ottawa, Ontario
K1A 0A6

The Honourable
Robert de Cotret, P.C., M.P.
President of the Treasury Board
Room 333, W.B.
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Ministers:

On behalf of the Board of Directors, I am pleased to submit Farm Credit Corporation's annual report for the fiscal year ended March 31, 1989.

In accordance with the Financial Administration Act, the report includes the financial statements and the auditor's report.

Considerable progress has been made in the past year. Our Recovery Plan outlining the need for financial restructuring was submitted to the government in July 1988. We met or exceeded all performance objectives set in our 1988-89 budget, implemented effective management information systems, and improved internal audit procedures.

Your government's ongoing support and leadership are gratefully acknowledged.

Yours sincerely,

James J. Hewitt
Chairman

CORPORATE PROFILE

Farm Credit Corporation (FCC) was established in 1959 as a Crown agency reporting to Parliament through the Minister of Agriculture. Its role is to provide financial services to enable Canadian farmers to establish, develop and maintain viable farm enterprises.

The Corporation makes and administers farm loans under the authority of the **Farm Credit Act** and the **Farm Syndicates Credit Act**, and administers programs as requested by the federal government.

Keeping up-to-date in farming trends is important to credit advisors like Brian McLeish. Much of the contact with farmers takes place right on the farm.

In addition, counselling and assistance in the planning, organization and development of farm businesses are available to all clients.

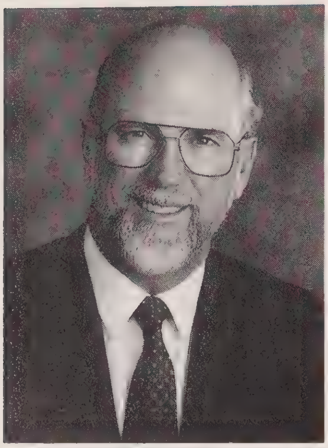
The Corporation's head office is in Ottawa. Its operations are decentralized into six regional offices with 99 district and field offices serving all agricultural areas. As of March 31, 1989, FCC had 685 permanent employees.

LENDING AND FINANCIAL SUMMARY

OPERATIONAL	**1988-89**	1987-88	Change (per cent)
Number of loans approved			
Farm Credit Act	**1,472**	2,674	−44.9
Farm Syndicates Credit Act	**22**	39	−43.6
Net amount of loans approved ($000's)			
Farm Credit Act	**102,286**	206,759	−50.5
Farm Syndicates Credit Act	**596**	1,367	−56.4
Average size of loans approved			
Farm Credit Act	**92,444**	124,827	−25.9
Loans receivable portfolio			
Number of loans receivable	**67,216**	72,182	− 6.9
Amount of loans receivable ($000's)	**4,182,351**	4,701,630	−11.0

FINANCIAL	**1988-89 ($000's)**	1987-88 ($000's)	Change ($000's)
Results of operations			
Interest income	**394,991**	379,999	+ 14,992
Net interest expense	**27,821**	87,100	− 59,279
Net provision for loan losses	**(20,169)**	394,044	−414,213
Loss for the year	**34,562**	511,838	−477,276
Non-accrual loans			
Non-accrual total owing	**808,155**	1,056,700	−248,545
Reduction of interest income due to non-accrual	**74,958**	130,800	− 55,842
Financial position at year-end			
Total assets	**4,031,719**	4,310,395	−278,676
Total liabilities	**4,702,910**	4,947,024	−244,114
Equity (Deficiency) of Canada	**(671,191)**	(636,629)	− 34,562
Funds provided by (used in)			
Financing activities	**(229,220)**	(89,628)	+139,592
Repayments by farmers	**313,258**	328,360	− 15,102
Loans disbursed to farmers	**(107,958)**	(240,626)	−132,668

CHAIRMAN'S REPORT



This has been a year of accomplishment. Changes in the farm economy, along with leadership and financial support from the federal government and the dedication and commitment of Corporation staff are the major reasons for the improvement.

Although the 1988 drought affected many farmers, the farm sector has strengthened overall. A number of factors have improved farm income nationally:

- strong production in many areas;
- higher prices for certain commodities; and
- payments from government support programs.

In many regions of the country, land values appear to have bottomed out, but farm lenders and borrowers were cautious in the use of credit, with many farmers continuing to reduce their debts.

In addition to these indirect contributions to enhanced corporate performance, the federal government's commitment and financial support assisted greatly in rebuilding a stronger financial base for FCC to better serve agriculture.

Record of performance

The early part of the year was devoted to developing a Recovery Plan to address three fundamental issues:

- the need for financial restructuring to offset the non-recoverable loans related to past policy decisions;
- development of a business plan to ensure that FCC's new business is conducted on a break-even basis; and
- clarification of FCC's role and mandate to ensure its long-term stability.

All of these issues were addressed and at the same time the Corporation has made significant financial progress.

None of the year's achievements would have been possible without the determination and professionalism of FCC staff. In fact, their efforts have enabled the Corporation to accomplish what a year ago was thought unattainable.

- Over $102 million in new loans were granted during a period of consolidation and financial conservatism in agriculture. Loan decisions were based on the economic potential of the farm rather than just the security offered, an approach essential to keeping Canadian agriculture competitive in world markets.
- The Corporation's Treasury Division arranged financing that kept our interest rates very favourable during a period when interest rates were rising rapidly.
- Staff worked closely with Farm Debt Review Boards and provincial mediation boards to substantially reduce arrears. During the year, the number of accounts in arrears dropped from 13,200 to 10,500 as at March 31, 1989. In dollars, arrears fell from $377.6 million to $283.5 million.

- The $56.9 million loss from current year's operations is substantially lower than the budgeted loss of $103.2 million. Increased investment in staff and other administrative expenses resulted in substantial progress in working with farmers to resolve problem accounts, thereby improving FCC's financial performance.

Financial restructuring

The Recovery Plan identified the need for the Government of Canada, FCC's sole shareholder, to convert a portion of FCC's debt to contributed capital, thereby reducing interest costs to offset the loss of interest revenue on non-accrual loans and the impact of loan losses. The government accepted the Recovery Plan in July 1988 and committed to a $400 million conversion of debt to contributed capital. The government also agreed to further equity contributions as the results of our future operations are evaluated. This commitment ensures that future FCC clients are not penalized by past FCC losses.

Paying our own way

The Corporation's business plan has established the criteria required to attain breakeven on new lending. The margins needed on lending, to cover the costs of funds, risk management and administration have been defined. Ultimately, the performance of the Corporation will be reflected in the success of our client, the Canadian farmer.

Role of FCC

With clarification of the Corporation's role, FCC can no longer be considered a "lender of last resort". Our role is to provide mortgage credit and complementary financial services on a break-even basis. Also, when called upon by the government, FCC will deliver specific government programs on a cost-recovery basis. Therefore, FCC is an alternative source of competitively priced credit which provides a stabilizing influence in the Canadian agricultural credit market. The goals set in the Recovery Plan are not one-time efforts, but represent ongoing flexible targets that enable FCC to adjust to the demands and needs of the market place.

A team effort

The significant and positive changes of the past year could not have been accomplished by management and staff alone. We have benefitted from sound guidance from the Board of Directors and the Corporation's Advisory Committee. Our ongoing consultations with federal and provincial governments and agencies have provided us with valuable ideas and information. The coordination of our efforts with those of the Farm Debt Review Boards and provincial mediation boards has assisted greatly in dealing with accounts in difficulty.

I am confident the significant progress we have made in 1988-89 is just the first step of many on our road to recovery.

The future – challenges and opportunities

In the near term, Farm Credit Corporation will continue to address the immediate problem of accounts in arrears and the sale of real estate. Resolving the problems of the past is essential if FCC is to have the strength it needs to serve the future.

While the Corporation is making considerable strides in reducing the number of accounts in difficulty, much remains to be done. FCC will continue its policy of being fair and reasonable with clients in difficulty. Wherever possible, solutions will be found to keep the farmer on the land.

In cases where ownership is transferred to the Corporation, and the farm operation has the potential for economic viability, lease back to the former owner may be arranged. However, our planning must also address the opportunities for returning land to private ownership.

The past several years have been difficult for many farmers and for FCC. It is important that farmers know that Farm Credit Corporation is open for business and has funds to finance their farm development plans. For Canadian farmers with reasonable potential for viability, we are an alternative source of competitively priced credit. FCC will have to communicate these messages to farmers. To achieve this end, consideration will be given to developing appropriate policies and a sound communication program in the coming year.

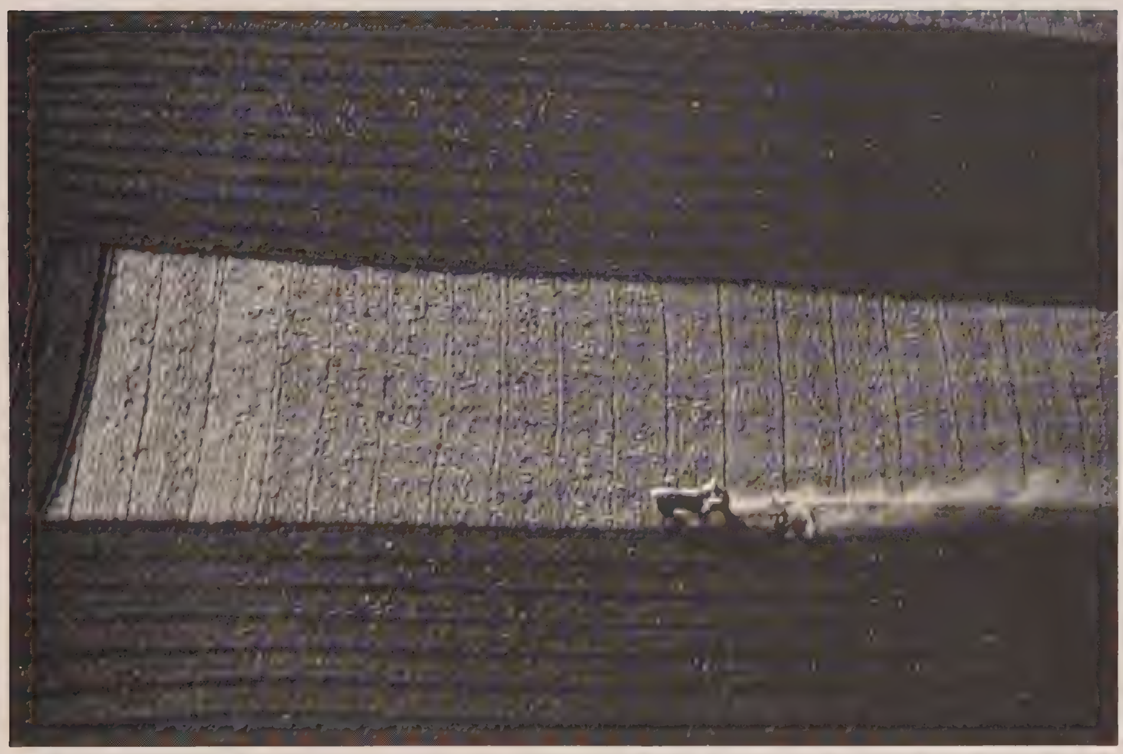
In the longer term, Farm Credit Corporation must be prepared to participate in the many new opportunities available to Canadian agriculture and those who service it. Liberalized international trading rules, the Canada/U.S. Free Trade Agreement, and further technological development will have an impact on Canadian farm operations. Continuing rapid technological change will undoubtedly require new capital expenditures which must be financed. FCC plans to work closely with farmers to identify and develop new tools that will assist them to take advantage of market opportunities while at the same time not exposing the farmer or lender to excessive risk due to fluctuating market prices or interest rates.

Developing new FCC credit policies will be a challenge. Government agricultural policies will have to balance federal and provincial concerns, satisfy international trade agreements, be seen inside and outside of Canada as consistent with the level playing field, and be within the fiscal capacity of government. These are a lot of competing demands to juggle. I am convinced, however, that Farm Credit Corporation will continue to play an important role in the farm credit field. There is a pent-up demand for credit because of the "rust-out and wear-out" of existing equipment and buildings, and this demand will have to be satisfied. FCC will play a role in meeting this need. But can we be more effective? Should Farm Credit Corporation be asked to expand its traditional role to better serve the farm community and its changing market place? These are the questions of tomorrow.

In the long term, there is one goal for FCC: to better serve Canada's farmers. This can be achieved only through a position of financial strength. Our efforts to achieve economic viability combined with an improved equity base should allow the Corporation to reach this goal.

The future, therefore, will provide some exciting opportunities for the Corporation. I am confident that the policies and products developed in the coming years will further improve the financial well-being of Canada's farmers and that of the Corporation.

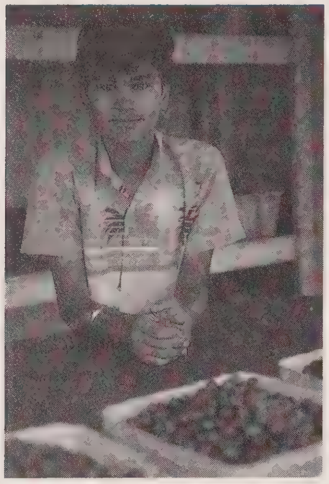
James J. Hewitt
Chairman



REPORT ON 1988-89 CORPORATE OBJECTIVES

Primary objective

To restructure and reorganize Farm Credit Corporation into an economically viable position so that it may respond to the needs of Canadian farmers.



Children learn early about the business of farming. Prett Gill helps out in the family's fruit stand.

- In July 1988, the Government of Canada renewed its commitment to FCC and clarified that FCC's primary role will be to provide long-term mortgage credit to Canadian farmers on a break-even basis and to deliver specific government programs on a cost-recovery basis.
- In July 1988, the government also approved a four-year financial restructuring plan to restore FCC to financial viability and operational effectiveness. The financial restructuring plan was designed to enable the Corporation to provide mortgage financing at competitive interest rates without penalizing new FCC clients for past FCC losses.
- The first phase of the financial restructuring involved a conversion by the government of $400 million from debt to contributed capital approved for July 1, 1988, with additional support over the next three years to ensure that an appropriate debt-to-capital structure would be established. Although the increase in contributed capital could not be carried out in fiscal 1988-89 because Parliament's agenda and schedule of sittings did not permit consideration of the Appropriation Act, the government suspended the principal and interest due on the loans in question. The required legislation was passed May 17, 1989.
- The Corporation has implemented policies, including strengthened monitoring and control systems, to build economic viability. In 1988, a thorough examination of the Corporation's internal audit division was carried out. The purpose of the examination was to establish a more effective role for internal audit in evaluating and protecting the Corporation's assets. Essentially, the efforts of the division have been redirected to a more intensive audit of the Corporation's lending, loan administration, and real estate procedures. The Corporation considers the internal audit function as a management tool which provides effective monitoring of day-to-day operations as well as evaluating initiatives related to the Corporation's Recovery Plan.

  A special examination of FCC systems and practices was scheduled to be completed by September 1, 1989, as required by the Financial Administration Act. In the opinion of the Board, the Corporation will derive greater benefits with the examination being performed on the newly introduced practices and systems, and accordingly decided to reschedule the special examination to begin in September 1989 with the report due in December 1990.

Secondary objectives

Service to farmers

To explore and develop new services for the benefit of Canadian farmers.

Farm Credit Corporation completed its third survey of the financial structure of Canadian agriculture. The results provide information on the changes in the industry and assist in identifying the credit needs of farmers.

- The Corporation developed a farm business analysis course for all lending staff to enable them to better assess the financial progress of farming operations, and to make better lending decisions.
- The executive and staff of the Corporation consulted with many farm groups, provincial government agencies, commercial lenders and farmers to share information on FCC's recovery progress and to solicit ideas which will allow FCC to better serve farmers.

Human resources

To attract, develop and maintain adequate numbers of well-trained, dedicated employees.

The Corporation's strength lies in the quality of its staff. In support of a working environment conducive to improved employee productivity and creativity, the Corporation:

- developed and provided training to enable employees to meet the needs of the changing work environment. Priority was given to farm business analysis, negotiation skills and computer training;
- integrated its staffing process more closely with human resources planning. This resulted in a balance between internal promotion and external recruitment, and ensured that both official languages and employment equity objectives were considered;
- further developed the human resources planning function with the introduction of workload measurement to more accurately project resource requirements.

Financial performance

To optimize the Corporation's financial performance by applying sound business principles and practices.

By implementing sound business practices, policies and procedures, the Corporation has outperformed financial targets in the following key areas:

- the loss from current year's operations of $56.9 million is 44.9 per cent lower than the $103.2 million loss anticipated in our 1988-89 operating budget;
- the arrears of $283.5 million are 20.1 per cent lower than the $355.0 million budgeted amount;
- the interest margin at 2.3 per cent on new lending is higher than the minimum target of 2.0 per cent. A major contributing factor has been that the Corporation borrowed lower-cost funds before the financing was required which allowed FCC to offer very competitive interest rates to its clients and still break even on new lending.

1989-90 OBJECTIVES: Primary objectives

- To be an alternative source of competitively priced credit to Canadian farmers whose businesses have reasonable potential for viability.
- To work with financially distressed clients to resolve their financial difficulties quickly and equitably so that by the end of the five-year planning period in 1993-94, 93 per cent of the dollar amount of FCC's loan portfolio and 97 per cent of the accounts will be classified as full accrual.
- To restore Farm Credit Corporation to an economically viable position by seeking an appropriate capital structure and conducting its lending operations on a break-even basis.

Enabling objectives

- To explore and develop new products and services for the benefit of Canadian farmers.
- To optimize corporate performance by applying sound business principles and practices.
- To assist employees to continue to maximize their performance through training and a positive working environment.
- To attract outstanding new employees including representative numbers of women, disabled persons, aboriginal peoples and visible minorities through excellence in recruiting measures.

Lending officer John Meston meets with Clarence Anderson (right) who started a successful seed and beef operation with an FCC loan in 1966.

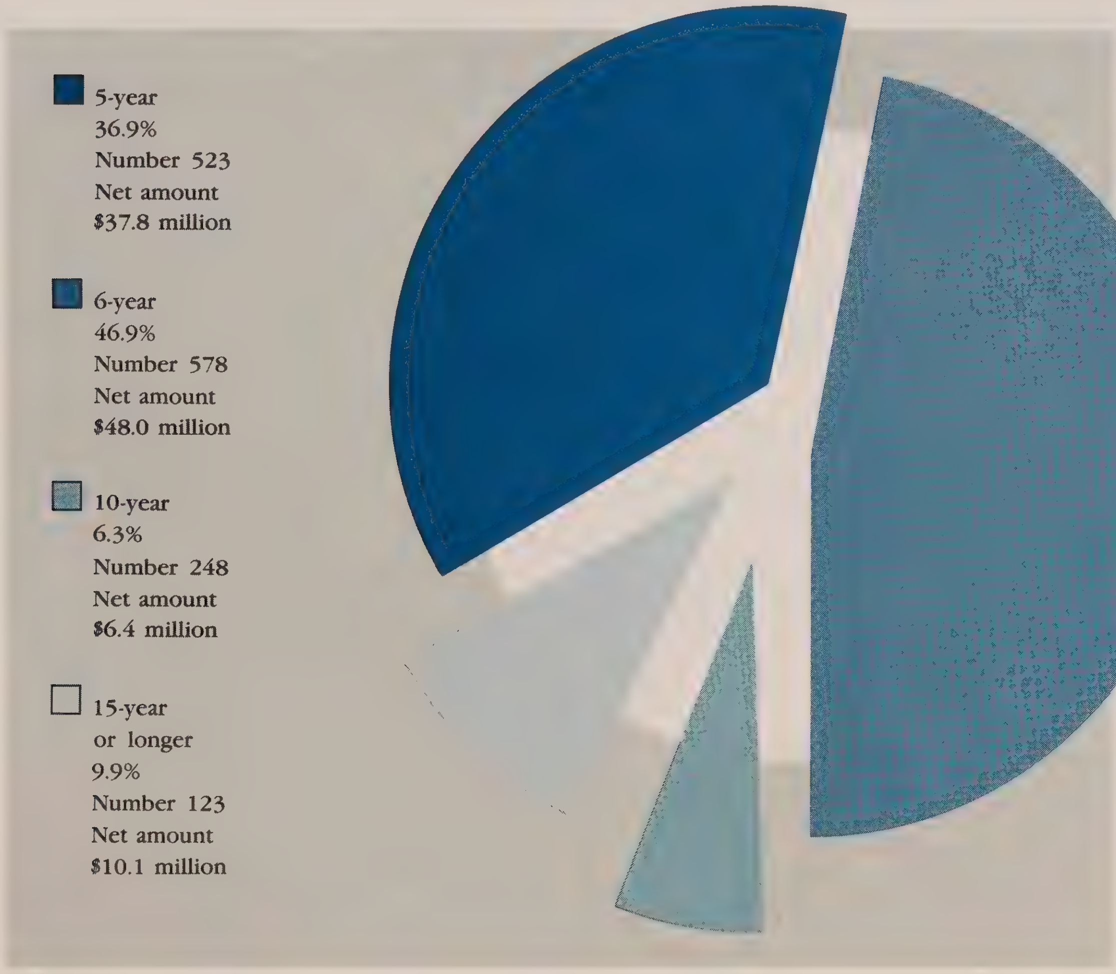
LENDING OPERATIONS

Lending under the Farm Credit Act

During 1988-89, the Corporation approved 1,472 loans for a net amount of $102.3 million. This figure excludes the amount used to refinance existing FCC loans. The Corporation offered regular loans with five-, 10- and 15-year or longer fixed-interest terms, and Shared Risk Mortgages with six-year terms. With Shared Risk Mortgages, the borrower and FCC share the costs or benefits of fluctuating interest rates. Loans to beginning farmers for the purpose of establishing their businesses, made under Section 38 (formerly Section 33) of the Farm Credit Act, were for five-year terms and Commodity-based Loans were for 10-year terms. The number and amount of loans by interest term is shown in *Chart 1*. Farm Credit Corporation's share of the shrinking long-term agricultural credit has increased slightly to about 14 per cent.

Chart 1

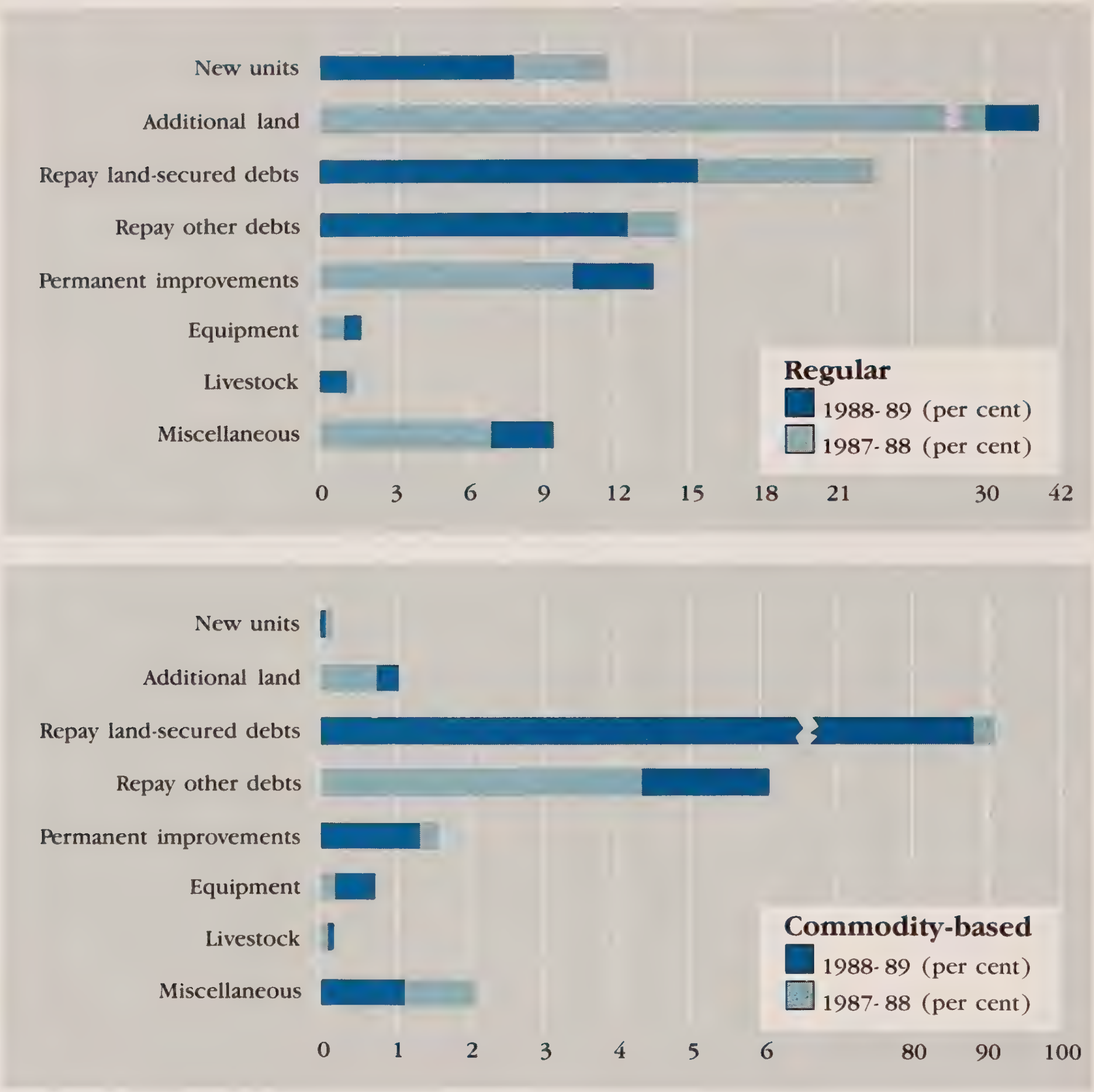
Loans approved in 1988-89 under Farm Credit Act (by interest term)



In the third year of the Commodity-based Loan Program, $26.8 million was approved, of which $24.4 million refinanced FCC loans, and $2.4 million was new funds.

Loans made under Section 38 accounted for 3.4 per cent of five-year mortgages approved during the year, and 68.6 per cent of 10-year term loans were Commodity-based Loans.

Chart 2 **Purposes for which loans were approved**



Commodity-based Loans were available only to farmers who already held FCC loans. The primary purpose was to refinance these loans.

Table 1 **Financial characteristics of farm operations borrowing from FCC**

	Regular		Commodity-based	
	1988-89 (average)	1987-88 (average)	**1988-89 (average)**	1987-88 (average)
Total assets	**$634,083**	$616,725	**$458,105**	$501,165
Per cent net worth	**60.7**	57.3	**32.3**	34.1
Loan approved	**$83,894**	$104,394	**$157,925**	$175,910
Loan-to-security ratio	**0.54**	0.58	**0.69**	0.68

Table 2 **Loans approved by province (Farm Credit Act)**

1988-89		1987-88	
Number	**Net amount ($000's)**	Number	Net amount ($000's)
49	**5,329**	118	16,337
114	**6,786**	256	15,788
558	**28,698**	1,046	66,069
156	**5,994**	207	13,816
260	**25,150**	485	51,210
262	**23,376**	426	34,226
41	**3,714**	67	4,536
–	**–**	4	239
20	**1,493**	52	2,904
9	**1,648**	10	1,503
3	**98**	3	131
1,472	**102,286**	2,674	206,759

Loan applications from 38 farmers who were dissatisfied with the Corporation's decision were reviewed by independent Appeal Boards consisting of competent farmers. On their advice, FCC modified its decision on four loan applications during the year.

Farm financial management

All applicants and clients of the Corporation have access to counselling by FCC staff in farm planning and financial management, as well as referrals to other federal and provincial agencies. As of March 31, 1989, there were 1,825 clients, compared with 2,201 a year earlier, enlisted in the formal advisory services program. These figures do not include the clients in financial difficulty who received counselling through the federal government's Farm Debt Review Boards or its Canadian Rural Transition Program.

Loan administration

On March 31, 1989, 84.5 per cent of FCC's accounts were in good standing, representing 73.1 per cent of the value of the loans receivable portfolio. This compares favourably with the 81.7 per cent of accounts in good standing a year earlier, representing 67.1 per cent of the value of the portfolio.

The amount of loan payments in arrears totalled $283.5 million on March 31, 1989. This was $94.1 million lower than the $377.6 million in arrears a year earlier. This change represents a 24.9 per cent reduction in total arrears over the fiscal year (*Table 3*).

Field staff provided assistance to borrowers in arrears, but low commodity prices and poor yields limited solutions for many. Before taking any action, the Corporation considered every account in arrears individually. If there was a

reasonable chance that borrowers could meet their obligations, the Corporation extended repayment periods or provided concessions through the farm debt review process to enable clients to continue operating their farms.

This is the fifth year that the Corporation has used the Portfolio Risk Management Program. By analysing the historical loan losses by various categories, the future risk of losses can be estimated. The estimate is adjusted to reflect existing conditions.

Arrears on loans approved since April 1, 1984, amounted to 3.0 per cent of principal not due, compared with 15.6 per cent on loans approved between April 1, 1980, and March 31, 1984.

Loan write-offs, net of recoveries, amounted to $129.8 million compared with $113.0 million in 1987-88.

Property management

FCC acquired 1,195 properties in 1988-89, compared with 692 last year. It sold 53 farms under power of sale, and 568 properties to which it held title. There were 1,485 properties on hand as of March 31, 1989, compared with 911 last year. Managing properties was a significant workload for FCC staff.

Wherever possible, properties were sold or leased at market rates. FCC also leased back land and buildings to former owner/clients to allow them to continue their farming operations. Of the 1,485 properties on hand as of March 31, 1989, 49.4 per cent have been leased back to the original owners.

FCC participated in the farm debt review process with 2,072 clients. There were 2,021 cases resolved. The financial concessions offered in the debt review process are based on an assessment of the risks and of the potential for financial success. Each case is judged on its own merits as no two farm businesses are the same. FCC will not make concessions that are proportionately greater than those granted by other secured creditors. About 40 per cent of the funds were used for the lease back of the property to the original owner, 30 per cent for forgiveness of arrears, 17 per cent to reduce interest rates, 11 per cent for selling back building sites to farmers and the remaining two per cent for other arrangements for a total of $40.9 million. The Government of Canada has committed up to $100 million per year for the next two fiscal years for concessions granted to farmers by FCC. These concessions were in addition to the write-offs associated with other debt settlements.

Throughout the debt review process, FCC was mindful of its responsibilities to all of its borrowers. With 84.5 per cent of its accounts up-to-date, the Corporation must ensure that policies for resolving the financial difficulties of some borrowers are fair to other clients who keep their accounts up-to-date, often through considerable hardship. With proper financial assistance and reasonable returns, many of the farmers in financial difficulty will be able to return their operations to financial viability. However, for some the only

alternative will be to leave farming. Maintaining this delicate balance of fairness to all of its borrowers was one of the many challenges met by FCC in 1988-89.

Lending under the Farm Syndicates Credit Act

Syndicate loans are used for the shared purchase and use of farm machinery, buildings and installed equipment. In 1988-89, 22 loans for $0.6 million were approved for syndicates of three or more individuals. At the end of the fiscal year, 64 accounts were in arrears for $0.8 million compared with 88 accounts for $0.9 million a year earlier. The Corporation now has 291 loans for $4.9 million outstanding under this Act. The present maximum loan is $15,000 per qualifying member, and $100,000 for a syndicate.

Cash crop producers represent 53.8 per cent of FCC's clients.

FINANCIAL OPERATIONS

Results of operations

FCC experienced a significant improvement in its operating performance during 1988-89. Although the Corporation incurred a loss from current year's operations of $56.9 million, this was a substantial improvement over the $126.8 million loss incurred in 1987-88.

The major factor contributing to the improvement in the Corporation's operating performance is related to the $59.3 million decrease in net interest expense. This decrease is primarily due to the reduction in the amount of accrued interest on loans receivable not recognized as income because of doubt about its ultimate collectability. An additional important factor is related to the savings in interest expense ($35.6 million) attributed to the government's decision to defer interest and principal payments on $400 million of Consolidated Revenue Fund debt which the government agreed to convert into contributed capital, effective July 1, 1988. However, this saving was more than offset by the decline in interest income caused by the shrinkage in the loans receivable portfolio due to write-offs and acquisitions of real estate.

Good financial counselling is based on a thorough understanding of your customer's business. FCC credit advisors are trained in agricultural economics. Here Credit Advisor Dave Risebrough (right) meets with James Almond.

Revenue from real estate net of operating expenses was $11.2 million in 1988-89. The $9.6 million increase reflects the revenue earned on the larger number of properties being leased. These properties were acquired in most cases by voluntary transfer in conjunction with lease back and purchase-option agreements recommended by Farm Debt Review Boards.

In 1988-89, administrative expenses increased by $4.1 million to $39.4 million. This increase was due mainly to the additional workload related to the management of arrears accounts, participation in farm debt reviews, and recovery actions, as well as the management and sale of real properties, and the classification of accounts to assess and manage business risk. Administrative expenses were 0.89 per cent of average loans receivable compared with 0.75 per cent in 1987-88. This increase is due to both higher costs and lower loans receivable resulting from write-offs and acquisitions of real estate.

A change in estimate which reduced the allowance for loan losses by $22.4 million resulted in a loss for the year of $34.6 million, compared with $511.8 million in 1987-88, in which year the allowance was increased by $385.0 million.

The Corporation's deficit was $889.5 million as of March 31, 1989. This deficit together with contributed capital of $218.3 million resulted in a deficiency of Canada totalling $671.2 million at year-end.

Table 3 **Loans receivable portfolio as at March 31, 1989, including non-accrual loans ($000's)**

	Number	Principal not due	Principal and interest in arrears	Accrued interest not due	Amounts held for future instalments	Net total
Loans to farmers (F.C.A.)						
British Columbia	**1,980**	143,616	5,879	6,375	(4,770)	151,100
Alberta	**10,911**	521,810	37,134	31,287	(6,881)	583,350
Saskatchewan	**22,405**	1,327,740	143,218	83,344	(11,580)	1,542,722
Manitoba	**6,585**	321,023	36,381	16,471	(5,055)	368,820
Ontario	**15,751**	1,064,214	48,714	42,957	(24,616)	1,131,269
Quebec	**6,696**	401,082	4,724	15,850	(5,914)	415,742
New Brunswick	**847**	54,344	1,591	2,575	(1,384)	57,126
Nova Scotia	**90**	4,035	240	140	(107)	4,308
P.E.I.	**786**	39,134	2,662	2,190	(691)	43,295
Newfoundland	**119**	10,578	757	414	(375)	11,374
Canada	**66,170**	**3,887,576**	**281,300**	**201,603**	**(61,373)**	**4,309,106**
Loans to farm syndicates (F.S.C.A.)						
British Columbia	**9**	190	34	8	(2)	230
Alberta	**28**	323	112	20	(6)	449
Saskatchewan	**28**	334	198	20	(1)	551
Manitoba	**42**	306	147	18	(28)	443
Ontario	**67**	867	192	39	(5)	1,093
Quebec	**94**	1,506	107	63	0	1,676
New Brunswick	**16**	228	14	9	(4)	247
Nova Scotia	**1**	11	0	1	0	12
P.E.I.	**2**	33	0	2	(2)	33
Newfoundland	**4**	119	0	5	0	124
Canada	**291**	**3,917**	**804**	**185**	**(48)**	**4,858**
Loans receivable from real estate sales (F.C.A.)						
British Columbia	**69**	4,260	117	175	(48)	4,504
Alberta	**79**	3,373	94	208	(38)	3,637
Saskatchewan	**68**	1,497	29	83	(30)	1,579
Manitoba	**38**	1,854	234	108	(7)	2,189
Ontario	**342**	18,155	713	810	(317)	19,361
Quebec	**131**	6,660	126	307	(41)	7,052
New Brunswick	**15**	720	11	33	(9)	755
Nova Scotia	**2**	42	1	2	(1)	44
P.E.I.	**7**	314	13	35	(3)	359
Newfoundland	**4**	309	11	12	0	332
Canada	**755**	**37,184**	**1,349**	**1,773**	**(494)**	**39,812**
Gross loans receivable	67,216	3,928,677	283,453	203,561	(61,915)	4,353,776
Adjustment to principal and interest relating to non-accrual loans		(30,043)	(67,236)	(74,146)	—	(171,425)
Loans receivable	67,216	3,898,634	216,217	129,415	(61,915)	4,182,351

Allowance for loan losses

The purpose of the allowance for loan losses is to reduce the carrying value of the loans receivable to an amount which is estimated to be collectible in light of current conditions. During the year, the allowance was reduced by $129.8 million due to write-offs net of recoveries, compared with a similar reduction of $113.0 million the previous year. The allowance was increased by $2.2 million to cover possible losses on loans made in 1988-89 compared with $9.0 million in 1987-88. As a result of changing conditions, further experience with problem accounts and improved information on the quality of loans in its portfolio, the Corporation has decided that a portion of the amount previously provided in recognition of some of the risks and uncertainties was no longer required. Accordingly, the Corporation has reduced the allowance for loan losses at year-end to an even $350.0 million by applying a change in estimate of $22.4 million to operations. This compares with an increase of $385.0 million in 1987-88, resulting in an allowance at March 31, 1988, of $500.0 million.

Non-accrual loans

At March 31, 1989, a total of 7,040 loans with a net total owing of $808.2 million were classified as non-accrual, compared with 7,950 loans totalling $1,057.0 million at the end of the previous year. In 1988-89, $75.0 million of interest on these loans was not recognized as interest income because its ultimate collectability was doubtful. This compares with $130.8 million of interest not recognized in 1987-88.

Cash flow

On an aggregate basis, the inflow of funds of $1,700.9 million exceeded the outflow of $1,679.0 million during the year, resulting in a $21.9 million increase in cash and investments at year-end. A primary source of funds was the $730.0 million of principal and interest payments from farmers compared with $709.0 million in 1987-88. The proceeds from the disposal of real estate were $78.6 million, an increase from the $29.2 million last year. An additional $859.4 million was provided by borrowing.

Loan disbursements to farmers were only $108.0 million, down substantially from $240.6 million the previous year. Interest and principal payments of about $667.5 million on long-term government and capital market debt were lower than the $791.0 million of payments in the previous fiscal year. Repayments of short-term borrowings totalled $842.0 million compared with $780.0 million in 1987-88, which decreased the outstanding short-term notes from $179.0 million to $66.0 million as at March 31, 1989.

Borrowing

During 1988-89, the Corporation was required to borrow exclusively from the Consolidated Revenue Fund for its short- and long-term financing requirements. A total of $130.4 million of long-term funds was borrowed to refinance maturing debt and to repay or restructure other debt compared with $345.6 million in 1987-88. In addition, $729.0 million of short-term funding was arranged to repay maturing short-term notes and to fund a portion of the Shared Risk Mortgage Program. This was also less than the $852.0 million of short-term borrowing in the previous year.

Interest margin

The goal for fiscal 1988-89 was to achieve an interest margin between 2.0 and 2.5 per cent on new lending. The weighted average interest rate on lending was 12.2 per cent while the Corporation's weighted average cost of funds was 9.9 per cent. The resulting interest margin of 2.3 per cent was a significant improvement over the 1.1 per cent achieved in 1987-88.

A substantial part of this improvement in the interest margin was due to the fact that the Corporation borrowed lower-cost funds in advance of lending requirements during a period of rising interest rates. These lower-cost funds enabled the Corporation to provide very competitive interest rates to its clients while still maintaining adequate interest margins.

Financial restructuring

The federal government agreed to convert $400 million of loans payable to the CRF to contributed capital effective July 1, 1988. Because of Parliament's agenda and schedule of sittings, however, the legislation required to increase the Corporation's authorized capital to a level sufficient to permit the conversion was not passed before the end of the fiscal year. Had the conversion occurred during the year, the contributed capital would have been increased to $618.3 million, and the deficiency of Canada would have been reduced to $271.2 million. The conversion is now scheduled to occur early in fiscal 1989-90.

Summary

The Corporation's financial results for 1988-89 met or significantly exceeded the objectives set out in its business plan for the year. While the Corporation still experienced an operating loss, there was substantial improvement. With effective information systems and monitoring of current activities, the Corporation will be able to adjust to market changes and costs of current operations. It is expected that FCC will continue to make substantial progress towards full operational effectiveness and financial viability as the subsequent phases of the financial restructuring plan are implemented.

FINANCIAL STATEMENTS

Management's responsibility for financial statements

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan losses, that are necessarily based on management's estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada and which have been consistently applied. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations. In addition, the internal and external auditors have full and free access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

A special examination of the Corporation's systems and practices was due to be completed by September 1, 1989. The Board decided to reschedule the special examination to begin in September, 1989 with the report due in December, 1990. This decision is based on the Corporation deriving greater benefits from the examination being performed on practices and systems which are currently in the process of being implemented.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon.

Jim Hewitt

James J. Hewitt, C.M.A.
Chairman and
Chief Executive Officer

Max Pierce

Max Pierce
Senior Vice-President,
Finance

Auditor's Report

To the Minister of Agriculture

I have examined the balance sheet of Farm Credit Corporation as at March 31, 1989 and the statements of operations and deficit and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, these financial statements present fairly the financial position of the Corporation as at March 31, 1989 and the results of its operations and the changes in its cash position for the year then ended in accordance with general accepted accounting principles applied on a basis consistent with that of the preceding year.

Section 138 of the Financial Administration Act requires the Corporation to cause a special examination of its systems and practices to be carried out at least once every five years. Accordingly, the first special examination should be completed by September 1, 1989. However, on December 15, 1988, the Corporation decided that, in view of the significant changes planned to its systems and practices, December 1990 would be established as the date for completion of the first special examination. This decision to defer the completion date is not in accordance with Part X of the Financial Administration Act.

Further, in my opinion, except that the Corporation has decided to defer the completion of the special examination beyond the deadline established by Part X of the Financial Administration Act as described in the preceding paragraph, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Farm Credit Act and the by-laws of the Corporation.

Kenneth M. Dye

Ottawa, Canada
June 9, 1989

Kenneth M. Dye, F.C.A.
Auditor General of Canada

Farm Credit Corporation
BALANCE SHEET
as at March 31, 1989

	1989	1988
	(000's)	
Assets		
Cash and short-term investments	$ 40,894	$ 18,981
Accounts receivable	4,720	632
Loans, net of allowance for loan losses of $350,000 (1988 – $500,000) *(Notes 3 and 4)*	3,832,351	4,201,630
Real estate acquired in settlement of loans *(Note 5)*	135,642	66,204
Fixed assets *(Note 6)*	3,793	3,481
Unamortized debt discount and issue expenses	14,319	19,467
	$4,031,719	$4,310,395
Liabilities		
Accounts payable and accrued liabilities	$ 6,549	$ 7,174
Short-term notes	69,269	181,943
Provision for employee termination benefits	2,807	2,340
Loans payable *(Notes 7 and 8)*	4,624,285	4,755,567
	4,702,910	4,947,024
Deficiency of Canada		
Contributed capital *(Notes 9 and 15)*	218,333	218,333
Deficit	(889,524)	(854,962)
	(671,191)	(636,629)
	$4,031,719	$4,310,395

Approved by:

The accompanying notes are an integral part of the financial statements.

James J. Hewitt, C.M.A.
Chairman and Chief Executive Officer

Max Pierce
Senior Vice-President, Finance

Farm Credit Corporation

STATEMENT OF OPERATIONS AND DEFICIT

for the year ended March 31, 1989

	1989	1988
	(000's)	
Interest income		
Loans receivable	**$389,410**	$377,867
Short-term investments	**5,581**	2,132
	394,991	379,999
Interest expense		
Loans payable	**410,972**	452,045
Short-term notes	**11,840**	15,054
	422,812	467,099
Net interest expense	**27,821**	87,100
Provision for loan losses – current year lending *(Note 4(a))*	**2,203**	9,044
Lease and other revenue from real estate, net of operating expenses of $5,653 (1988 – $2,568)	**(11,157)**	(1,570)
Other income	**(1,377)**	(3,074)
Loss before administrative expenses	**17,490**	91,500
Administrative expenses *(Note 10)*	**39,444**	35,338
Loss from current year's operations	**56,934**	126,838
Change in estimate – provision for loan losses *(Note 4(b))*	**(22,372)**	385,000
Loss for the year	**34,562**	511,838
Deficit at beginning of the year	**854,962**	343,124
Deficit at end of the year	**$889,524**	$854,962

The accompanying notes are an integral part of the financial statements.

Farm Credit Corporation
STATEMENT OF CHANGES IN CASH POSITION
for the year ended March 31, 1989

	1989	1988
	(000's)	
Operating activities		
Loss for the year	**$ (34,562)**	$ (511,838)
Items not involving cash		
Net provision for loan losses	**(20,169)**	394,044
Government compensation for loan losses	**—**	15,000
Change in accrued interest receivable	**36,159**	(3,150)
Change in accrued interest payable	**(14,736)**	1,676
Amortization of debt discount and issue expenses	**5,148**	5,351
Depreciation and other	**(3,012)**	3,148
Cash provided by (used in) operating activities	**(31,172)**	(95,469)
Investing activities		
Loans to farmers	**(107,958)**	(240,626)
Loans receivable repaid	**313,258**	328,360
Proceeds from disposal of real estate	**78,551**	29,231
Additions to fixed assets	**(1,546)**	(1,381)
Cash provided by (used in) investing activities	**282,305**	115,584
Financing activities		
Loans from Canada	**130,350**	345,600
Loans repaid to Canada	**(246,896)**	(345,600)
Change in short-term notes	**(112,674)**	(89,628)
Cash provided by (used in) financing activities	**(229,220)**	(89,628)
Increase (decrease) in cash and short-term investments	**21,913**	(69,513)
Cash and short-term investments at beginning of the year	**18,981**	88,494
Cash and short-term investments at end of the year	**$ 40,894**	$ 18,981

The accompanying notes are an integral part of the financial statements.

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation ("the Corporation") was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedulle III to the Financial Administration Act. The Corporation makes and administers farm loans under the authority of the Farm Credit Act and the Farm Syndicates Credit Act, and administers programs as requested by the Government of Canada ("the government").

The Corporation's role, as clarified in the Corporate Plan approved in 1988, is to provide mortgage credit and complementary financial services to Canadian farmers on a break-even basis and, when called upon by the government, to deliver specific government programs on a cost-recovery basis.

(b) Recovery Plan

During the year, the government approved a recovery plan for the Corporation. The plan covers a four-year period ending March 31, 1992. It provides, among other things, for the financial restructuring of the Corporation and establishes operating policies and management guidelines within which the Corporation is to operate. As part of the first phase of recovery, the plan provides for the conversion to contributed capital of $400 million of loans payable to Canada.

2. Significant accounting policies

(a) Allowance for loan losses

The allowance for loan losses represents management's estimate of probable losses on the loans outstanding at the end of the year. The allowance has a specific component which is based on the review of outstanding undersecured loans and a general component, which is prudential in nature, to provide for loan losses which have not yet been specifically identified.

The allowance is based on a periodic evaluation of the loan portfolio in which numerous factors are considered, including future land values, commodity prices, federal and provincial governments' programs, and climatic conditions. Management has estimated the effect of these risks and uncertainties when determining the allowance for loan losses.

The government has agreed to reimburse the Corporation for concessions it will make to farmers over the next two years as a result of its participation in the Farm Debt Review Board process. The type of concessions to be made through the process, and the extent to which they will reduce the Corporation's loan losses, are not presently known. They are, therefore, not included in establishing the allowance for loan losses.

Actual loan losses, write-downs of acquired real estate, and losses on the sale of real estate are charged to the allowance while recoveries are credited to the allowance. Adjustments of the allowance to the level regarded by management as being appropriate are applied to operations.

(b) Revenue recognition

Interest income is recorded on the accrual basis until such time as management determines that a loan should be classified as non-accrual. A loan is classified as non-accrual when principal or interest is six months past due unless the loan is well secured, or when circumstances indicate doubt as to the ultimate collectibility of principal or interest. When a loan is classified as non-accrual, uncollected interest recognized in the year is reversed against interest income and, where necessary, uncollected interest recognized in previous years is provided for in the allowance for loan losses.

Interest payments received on non-accrual loans are recorded as interest income on a cash basis, where it has been determined that the loan does not require a specific provision for loss; otherwise, they are credited to principal.

Non-accrual loans may return to accrual status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Loan fees and charges are recorded as other income when earned.

(c) Real estate acquired in settlement of loans

Real estate is recorded at the lower of the amount of the loan outstanding or the estimated net realizable value at the time of acquisition. Subsequent declines in estimated net realizable value are recorded in the year in which they occur.

(d) Farm debt review process

Amounts received on behalf of farmers for concessions granted by the Corporation under the farm debt review process are applied as if they had been received directly from the farmers.

(e) Fixed assets

Fixed assets are recorded at cost less accumulated depreciation or amortization. Depreciation and amortization are provided over the estimated useful lives of the fixed assets according to the following methods and rates:

	Methods	Rates
Equipment and furniture	Declining balance	20%
Computer equipment and software	Straight-line	20%
Leasehold improvements	Straight-line	Lease term plus the first renewal option

(f) Debt discount and issue expenses

Debt discount and issue expenses are amortized on a straight-line basis over the life of the debt and included in interest expense on loans payable.

(g) Translation of foreign currencies

Loans and related interest payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are included with debt discount and issue expenses. These amounts are amortized on a straight-line basis and are charged to interest expense over the lives of the obligations.

(h) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to matching the employees' contributions for current service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

(i) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(j) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred tax benefits which have not been recorded and will only be recognized when there is virtual certainty that they will be realized.

3. Loans

	Annual interest rate %	1989	1988
		(000's)	
Loans to farmers, secured by mortgages	5 – 16¾	$4,137,681	$4,655,314
Loans to farm syndicates, secured by notes	6¼ – 17½	4,858	5,951
Loans receivable from real estate sales, secured by agreements for sale or mortgages	5 – 15¾	39,812	40,365
		4,182,351	4,701,630
Less: Allowance for loan losses		350,000	500,000
		$3,832,351	$4,201,630

Amounts due by fiscal year based on loan terms are as follows:	1989	1988
Principal past due	$ 55,550	$ 63,533
1989	—	147,069
1990	425,767	492,665
1991	252,293	267,072
1992	294,685	306,063
1993	290,456	296,655
1994	456,964	513,806
1995 and beyond	2,172,267	2,282,115
	3,947,982	4,368,978
Accrued interest – current	73,702	112,176
– arrears	160,667	220,476
	$4,182,351	$4,701,630

At March 31, 1989, the Corporation had 7,040 loans representing $808 million of loans receivable classified as non-accrual (1988 – 7,950 representing $1,057 million). During the year, interest not recognized on non-accrual loans amounted to $75 million (1988 – $131 million). The accumulated interest not recognized on non-accrual loans outstanding at March 31, 1989, amounted to $171 million (1988 – $191 million).

Prepayments of principal from farmers of $153 million (1988 – $158 million) were received during the year.

4. Allowance for loan losses

(a) A summary of the changes in the allowance for loan losses follows:

	1989	1988
	(000's)	
Balance at beginning of the year	$ 500,000	$ 219,000
Write-offs, net of recoveries	(129,831)	(113,044)
Provision for loan losses – current year lending	2,203	9,044
Change in estimate – provision for loan losses	(22,372)	385,000
Balance at end of the year	$ 350,000	$ 500,000

(b) Change in estimate – provision for loan losses

Future agricultural and economic conditions are not predictable with certainty and therefore, actual loan losses may vary from management's estimate. As a result of changing conditions, further experience with problem accounts and improved information on the quality of loans in its portfolio, the Corporation decided that a portion of the amount previously provided in recognition of some of the risks and uncertainties was no longer required. Accordingly, the Corporation reduced the allowance for loan losses at year-end to an even $350 million by applying a change in estimate of $22 million to operations.

5. Real estate acquired in settlement of loans

Real estate represents farm property acquired in the process of administering loans receivable and must be disposed of within five years of acquisition or such further period as the Governor in Council may prescribe.

The Corporation has 1,485 properties (1988 – 911) which represent current saleable properties and leased properties which are subject to holding periods of up to four years.

6. Fixed assets

The analysis is as follows:

	1989	1988
	(000's)	
Equipment and furniture	$3,176	$2,673
Computer equipment and software	3,790	3,042
Leasehold improvements	1,333	1,170
	8,299	6,885
Less: Accumulated depreciation and amortization	4,506	3,404
	$3,793	$3,481

Depreciation and amortization expense for the year ended March 31, 1989, was $1,234 thousand (1988 – $857 thousand).

7. *Loans payable*

	Annual interest rate %	1989	1988
		(000's)	
Loans from Canada, secured by notes			
Farm Credit Act	6 – 12	$3,182,998	$3,298,476
Farm Syndicates Credit Act	9⅛ – 11	4,962	6,030
Loans from capital markets, secured by notes			
Farm Credit Act	9 – 12¼	1,328,156	1,328,156
		4,516,116	4,632,662
Accrued interest		108,169	122,905
		$4,624,285	$4,755,567

Amounts due by fiscal year are as follows:

	1989	1988
1989	$ —	$ 220,787
1990	1,030,087	641,371
1991	470,392	463,864
1992	416,218	435,554
1993	640,663	660,983
1994	528,868	455,513
1995 and beyond	1,429,888	1,754,590
	4,516,116	4,632,662
Accrued interest	108,169	122,905
	$4,624,285	$4,755,567

The government decided that no principal or interest would be payable on loans from Canada of $400 million from July 1, 1988 to the date of total redemption by conversion to contributed capital. This amount is shown maturing in 1990. As a result, the total amount of interest expense not incurred in the year amounted to $35 million.

8. *Limits on borrowing*

The Farm Credit Act limits the aggregate amount outstanding of the principal borrowings by the Corporation pursuant to the Act to twenty-five times the contributed capital of the Corporation. At March 31, 1989, the Corporation's outstanding borrowings under this Act, comprising short-term notes of $66 million and loans payable of $4,502 million, were 20.95 times the contributed capital of $218 million (1988 – 21.97 times).

The Farm Syndicates Credit Act limits the loans from Canada pursuant to the Act to $25 million. At March 31, 1989, the Corporation's loans from Canada under this Act were $5 million (1988 – $6 million).

The Corporation continues to be restricted to borrowing its short and long-term funding requirements from the government's Consolidated Revenue Fund. These borrowings require the approvals of both the Governor in Council and the Minister of Finance.

9. Contributed capital

The contributed capital of the Corporation represents the amount received from Canada under section 12 of the Farm Credit Act. At March 31, 1989, the statutory limit on this amount was $225 million (1988 – $225 million).

10. Administrative expenses

The analysis is as follows:

	1989	1988
	(000's)	
Salaries and employee benefits	$27,227	$25,423
Premises and equipment, including depreciation	4,717	4,035
Travel and relocation	3,093	2,505
Other	4,407	3,375
	$39,444	$35,338

11. Income taxes

Timing differences of approximately $525 million are available to the Corporation as at March 31, 1989. These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for loan losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes which has not been recognized in the financial statements amounts to $334 million. Of this amount, $8 million will expire on March 31, 1993, $14 million on March 31, 1994, $118 million on March 31, 1995, and $194 million on March 31, 1996.

12. Commitments to farmers

As at March 31, 1989, loans to farmers approved but not disbursed amounted to $23 million (1988 – $23 million). These loans were approved at rates from 11.75% to 13.25%. It is expected that the majority of these loans will be disbursed within the six-month period ending September 30, 1989, from funds to be borrowed by the Corporation at prevailing rates of interest at the time of borrowing.

13. Operating leases

Future minimum payments by fiscal year on operating leases for premises, with initial non-cancellable lease terms in excess of one year, are as follows:

	(000's)
1990	$2,094
1991	1,946
1992	1,564
1993	1,247
1994	802
1995 and beyond	967
	$8,620

These leases generally provide for the payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

14. Government programs

(a) Commodity-based Loan Program

In its budget announcement, February 26, 1986, the government directed the Corporation to establish the Commodity-based Loan Program for existing clients of the Corporation who were experiencing financial difficulty and who met certain eligibility criteria. The program provides for reduced interest rates with loan principal indexed to changes in commodity prices. The resulting net cash flow deficiencies, if any, are made up by the government.

During the year, Commodity-based Loans in the amount of $29 million (1988 – $168 million) were disbursed, of which $3 million (1988 – $10 million) was used to pay arrears on the Corporation's previous loans. In addition, $16 million was received from the government in respect of cash flow deficiencies (1988 – $10 million).

(b) Farm debt review process

Subject to annual parliamentary appropriation, the Minister of Agriculture has been authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the Farm Debt Review Act. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments, or the Corporation proceeds with recovery action.

The government has allocated up to $270 million for concessions to be granted over the period ending March 31, 1991. Since the inception of the farm debt review process, the Corporation has offered $88 million in concessions and received $37 million from the government of which $29 million was received in the current year (1988 – $8 million). The committed difference of $51 million will be due and received over the next five years as farmers meet their commitments and thereby realize the benefits of the concessions.

15. Subsequent events

(a) Contributed capital

Subsequent to the year-end, Parliament authorized the increase of the contributed capital limit from $225 million to $625 million. This will enable the conversion by the government of loans payable to Canada in the amount of $400 million to contributed capital in accordance with the Recovery Plan.

The conversion will eliminate the Corporation's loss carry-forward for income tax purposes and reduce available timing differences by $8 million.

(b) Commodity-based Loan Program

In the Budget announced on April 27, 1989, the government cancelled future lending under the Commodity-based Loan Program.

16. Comparative figures

Certain 1988 comparative figures have been reclassified to reflect the presentation adopted in 1989.

FIVE-YEAR REVIEW

OPERATIONAL	**1988-89**	1987-88	1986-87	1985-86	1984-85
Total loans receivable portfolio					
Number of loans receivable	**67,216**	72,182	75,487	78,183	79,270
Amount of loans receivable ($000's)	**4,182,351**	4,701,630	4,955,941	4,984,298	4,992,728
Under Farm Credit Act					
Number of loans approved	**1,472**	2,674	4,311	2,278	2,316
Amount of loans approved gross ($000's)	**136,078**	333,788	610,134	246,965	268,941
Amount of loans approved net ($000's)	**102,286**	206,759	336,400	237,683	258,748
Average size of loans approved ($)	**92,444**	124,827	141,530	108,413	116,123
Percentage of loans in good standing	**84.5**	81.7	80.5	81.9	84.7
Percentage of total owing in good standing	**73.1**	67.8	65.1	65.9	69.8
Under CBL					
Number of loans approved	**170**	764	1,459	N/A	N/A
Amount of loans approved gross ($000's)	**26,847**	134,396	298,703	N/A	N/A
Under Farm Syndicates Credit Act					
Number of loans approved	**22**	39	44	37	63
Amount of loans approved ($000's)	**596**	1,367	1,233	1,119	1,584

FINANCIAL	**1988-89**	1987-88	1986-87	1985-86	1984-85
Revenues and expenses ($000's)					
Interest income	**394,991**	379,999	479,107	485,974	527,261
Net interest (income) expense	**27,821**	87,100	4,980	(11,269)	(47,279)
Net provision for loan losses	**(20,169)**	394,044	98,322	99,351	46,278
Administrative expenses	**39,444**	35,338	33,073	34,961	32,086
Loss for year	**34,562**	511,838	132,490	121,406	30,178
Non-accrual loans					
Number of non-accrual loans	**7,040**	7,950	4,211	N/A	N/A
Non-accrual total owing ($000's)	**808,155**	1,056,700	695,900	N/A	N/A
Reduction of net interest income due to non-accrual ($000's)	**74,958**	130,800	55,400	40,000	N/A
Financial position ($000's)					
Total assets	**4,031,719**	4,310,395	4,908,640	5,015,036	4,940,229
Real estate	**135,642**	66,204	53,771	45,805	26,987
Total liabilities	**4,702,910**	4,947,024	5,033,431	5,007,337	4,811,124
Equity (Deficiency) of Canada	**(671,191)**	(636,629)	(124,791)	7,699	129,105

CORPORATE DIRECTORY
Members of the Board

The Board of the Corporation has seven members appointed by the Governor in Council. The Chairman and Vice-Chairman of the Board are also officers of the Corporation. The Chairman is the Chief Executive Officer and, as such, directs and supervises the operations of the Corporation.

From left to right: **Frank Claydon** (seated)	*Assistant Deputy Minister, Agriculture Canada*
Thomas S. Barton	*Senior Vice-President, General Counsel and Corporate Secretary*
Georges L'Heureux	*Dairy farmer, Quebec*
Blois Dingwell*	*Mixed farm operator, Prince Edward Island*
James J. Hewitt*, **C.M.A.**	*Chairman and Chief Executive Officer*
Judy Lloyd*, **C.M.A.**	*Certified Management Accountant, Alberta*
George Klosler* (seated)	*Tobacco, grain, ginseng and hog producer, Ontario*
C. Gerald Penney, C.A.	*Vice-Chairman and Chief Operating Officer*

* *Member of the Audit Committee*

Advisory Committee

The Advisory Committee is appointed by the Minister of Agriculture to advise him and the Corporation on lending policy matters. Most members are farmers or they operate an agricultural business.

Garnet Rickard
Chairman
Ontario

William A. Verhagen
Alberta

Don Knoerr
British Columbia

Don Swenson
Saskatchewan

Edward Mazer
Manitoba

Jack Cumming
Ontario

Jeannine Caron-Giasson
Quebec

Leon Bremner
New Brunswick

Keith Barrett
Prince Edward Island

Chairmen of Appeal Boards

Appeal Boards, composed of practicing farmers of proven ability and judgement, are established in each province to hear appeals from farmers who are dissatisfied with the Corporation's decision on their loan applications.

E.T. (Ted) Osborn
British Columbia

George Templeton
Alberta

Dennis C. Boldt
Saskatchewan

Kenneth Lyle Young
Manitoba

Edward J. Mailloux
Ontario

Robert Brochu
Quebec

W. Burris Coburn
New Brunswick

Thomas Meredith
Nova Scotia

Wilbert MacKenzie
Prince Edward Island

Dennis Galway
Newfoundland

Senior executives

James J. Hewitt
Chairman and Chief Executive Officer

C. Gerald Penney
Vice-Chairman and Chief Operating Officer

Thomas S. Barton
Senior Vice-President, General Counsel and Corporate Secretary

Brian Strom
Senior Vice-President, Operations

Max Pierce
Senior Vice-President, Finance

Terry Kremeniuk
Vice-President, Research and Planning

(Vacant)
Vice-President, Administration

Pierre Laflamme
Vice-President, Corporate Audit

Dave Fraser
Vice-President, Lending

Thomas R. Robertson
Treasurer

Colin M. Brooker
Controller

Janice Whitters
Assistant Corporate Secretary

Photography:

Alrick Huebener
Dan Maruska
Ross Davidson-Pilon
Agriculture Canada
Supply and Services Canada
Industry, Science and Technology Canada

	Regional offices	*District offices*	*Field offices*
Alberta/British Columbia*	**George Jones** 101 St. Building Suite 1550 10250-101st Street Edmonton T5J 3P4 (403) 420-4488	Grande Prairie, Kelowna, Lacombe, Lethbridge, Vegreville, Westlock	Abbotsford, Athabasca, Barrhead, Brooks, Calgary, Camrose, Dawson Creek, Drumheller, Edmonton, Evansburg, Fairview, Falher, Hanna, Medicine Hat, Olds, Peace River, Stettler, St. Paul, Vermilion, Wainwright, Wetaskiwin
Saskatchewan	**Russ Holm** 110-2401 Saskatchewan Dr. Regina S4P 4H9 (306) 780-5610	North Battleford, Prince Albert, Regina, Saskatoon, Swift Current, Yorkton	Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake, Moose Jaw, Rosetown, Tisdale, Weyburn, Wynyard
Manitoba	**Marshall Stachniak** 400-5 Donald St. Winnipeg R3L 2T4 (204) 983-4039	Brandon, Portage la Prairie, Winnipeg	Arborg, Carman, Dauphin, Killarney, Morden, Neepawa, Virden
Ontario	**Bob Aumell** 450 Speedvale Ave. W. Unit 201 Guelph NIH 7G7 (519) 821-1330	Chatham, Guelph, Lindsay, Nepean, North Bay, Walkerton, Woodstock	Barrie, Campbellford, Cornwall, Essex, Goderich, Kingston, Lambeth, Listowel, New Liskeard, Owen Sound, Simcoe, Stratford, Vineland, Wyoming
Quebec	**Jacques Doran** Édifice Champlain Suite 2000 2700 Laurier Blvd. Box 3600 Ste-Foy GIV 4C7 (418) 648-3993	Ste-Foy, St-Hyacinthe, Rock Forest	Arthabaska, Cap-de-la-Madeleine, Drummondville, Granby, Hull, Joliette, Rimouski, Roberval, St-Georges de Beauce, St-Jean, St-Jérôme, Valleyfield
Atlantic	**John van Abbema** Boulevard Plaza, Phase 1 Suite 230 1133 St. George Blvd. Moncton, N.B. E1E 4E1 (506) 857-6595	Charlottetown, Moncton	Fredericton, Grand Falls, Kentville, St. John's, Summerside, Sussex, Truro, Woodstock

* *Yukon Territory is served through the Edmonton office*

Farm Credit Corporation
Canada

Société du crédit agricole
Canada

Canada

FARM CREDIT CORPORATION
Annual Report 1989 - 1990




INVESTING IN GOOD BUSINESS . . .
CANADIAN AGRICULTURE

CONTENTS

CE RAPPORT ANNUEL EST AUSSI
DISPONIBLE EN FRANÇAIS

Head Office Address
Farm Credit Corporation
434 Queen Street
P.O. Box 2314
Postal Station D
Ottawa, Ontario
K1P 6J9

The Honourable
Don Mazankowski, P.C., M.P.
Minister of Agriculture
Room 203-S, C.B.
House of Commons
Ottawa, Ontario
KlA 0A6

The Honourable
Robert de Cotret, P.C., M.P.
President of the Treasury Board
Room 333, W.B.
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Ministers:

On behalf of the Board of Directors, I am pleased to submit Farm Credit Corporation's annual report for the fiscal year ended March 31, 1990.

In accordance with the Financial Administration Act, the report includes the financial statements and the auditor's report.

For the second consecutive year, we have made considerable progress. We met or exceeded virtually all performance objectives and continued to improve our management systems and practices. The expertise of FCC staff and the superior service they provided to clients directly contributed to our improved performance this year. Nationally, lending volume nearly doubled, and arrears dropped 32 per cent from the previous fiscal year.

Your government's ongoing support and leadership are gratefully acknowledged.

Yours sincerely,

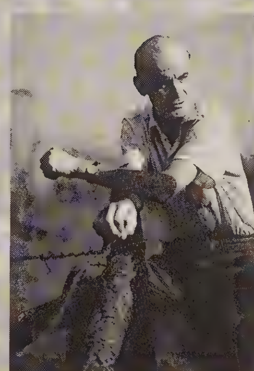
James J. Hewitt
Chairman

CORPORATE PROFILE

The Corporation's mandate is to "make and administer farm loans" and to carry out "such other duties and functions as may be assigned to it by the Governor-in-Council." FCC was established and given its mandate under the authority of the Farm Credit Act (FCA) in 1959. It is a Crown agency reporting to Parliament through the Minister of Agriculture.

FCC's role is to provide mortgage credit and complementary financial services to Canadian farmers on a break-even basis and, when called upon by government, to deliver specific programs on a cost-recovery basis. Under this role, FCC is an alternative source of competitively priced credit to farmers who have significant potential for commercial viability. FCC staff provide counselling in farm planning and financial management to loan applicants and clients. The Corporation also makes and administers loans under the Farm Syndicates Credit Act (FSCA) and works with the Farm Debt Review Boards to assist farmers in resolving their financial problems.

The Corporation's head office is in Ottawa. A workforce of 175 employees is located at Head Office, and 578 employees are located in six regional offices, and 100 district and field offices across Canada.



WILBERT MACKENZIE, HOG PRODUCER FROM VERNON RIVER AND CHAIRMAN OF THE PRINCE EDWARD ISLAND APPEAL BOARD.

LENDING AND FINANCIAL SUMMARY

OPERATIONAL	**1989-90**	1988-89	CHANGE (PER CENT)
Loans approved (Farm Credit Act)			
Number	**2,371**	1,472	61.1
Amount ($ millions)	**201.0**	102.3	96.5
Loans approved (Farm Syndicates Credit Act)			
Number	**73**	22	231.8
Amount ($ millions)	**2.5**	0.6	316.7
Loans receivable portfolio			
Number	**63,884**	67,216	(5.0)
Amount ($ millions)	**3,852.8**	4,182.3	(7.9)
Loans in arrears at year end			
Number	**8,636**	10,418	(17.1)
Amount ($ millions)	**193.3**	283.5	(31.8)
Real properties at year end			
Number	**1,864**	1,485	25.6
Amount ($ millions)	**178.3**	135.6	31.5

FINANCIAL	**1989-90 ($ MILLIONS)**	1988-89 ($ MILLIONS)	CHANGE ($ MILLIONS)
Revenues and expenses			
Net interest income (expense)	**30.3**	(27.8)	58.1
Net provision for loan losses	**3.2**	(20.2)	23.4
Net revenue from real estate	**20.8**	11.1	9.6
Other income	**1.7**	1.4	0.4
Administrative expenses	**47.3**	39.4	7.9
Large corporations capital tax	**5.0**	-	5.0
Loss for the year	**2.7**	34.6	(31.9)
Non-accrual loans			
Total owing on non-accrual	**641.4**	808.2	(166.8)
Reduction of interest income due to non-accrual	**30.9**	75.0	(44.1)
Financial position at year end			
Total assets	**3,816.7**	4,031.7	(215.0)
Total liabilities	**3,890.6**	4,702.9	(812.3)
Deficiency of Canada	**73.9**	671.2	(597.3)

CHAIRMAN'S REPORT

This Annual Report reflects another year of improved operating results. The commitment of our Board, Management and Staff has enabled the Corporation to achieve the goals and objectives for the year.

Acknowledgement is given to two of our Directors, Mr. Georges L'Heureux of St. Elzéar, Québec and Mr. Blois Dingwell of Midgell, Prince Edward Island, who retired in the past year. Their contribution to the Corporation was greatly appreciated. Mrs. Jeannine Bourque of Beauce, Québec and Mr. John McKenna of Cardigan, Prince Edward Island were appointed in 1989 to replace our retiring directors.

ACHIEVEMENTS

This fiscal year was marked by numerous milestones. Our lending activity nearly doubled that of the previous year, with $201 million of loans granted compared to $102.3 million in 1988-89.

The quality of our loan portfolio improved as the number of accounts in arrears dropped to 8,600 as at March 31, 1990 from 10,400 as at March 31, 1989. The amount of arrears declined from $283.5 million in 1989 to $193.3 million as at March 31, 1990. Arrears as a percentage of FCC's total loan portfolio declined from 6.8 per cent in 1989 to 5.0 per cent as at March 31, 1990.

Operating results also showed considerable improvement. Our loss from current year's operations totalled $2.7 million as compared to $56.9 million for the fiscal year ended March 31, 1989. Our goal is to achieve a break-even position by March 31, 1991.

Property management and land sales have become an integral part of the Corporation's activities. In many cases, FCC has leased the farm property back to the original owner with an option to purchase the land at the end of the three-year lease. During 1989, 160 leases expired with half of the lessees exercising their option to purchase all or part of the leased land. In 1990, approximately 650 leases will expire and, due to depressed commodity prices, particularly wheat, it is anticipated that a number of farmers will not be in a financial position to exercise their option to purchase. In light of the 1990 forecast of reduced farm incomes, the Minister of Agriculture requested the Corporation to review the current three-year leasing policy. In March the Board of Directors amended the Corporation's leasing policy to allow for a three-year extension of the expiring leases. The lease extension also provides for an equity-building program to assist farmers in raising the down payment required to exercise the option to purchase at the end of the lease extension. Initial reaction to the announcement has been favourable.

Land sales have also been substantial, allowing the Corporation to return considerable acreage to private ownership. The activity in lending and land sales reflects a note of cautious optimism that farmland values have stabilized and opportunities are available for land acquisition or farm expansion. During the fiscal year, the Corporation sold 334,000 acres of farmland to individual buyers.

In a period of unsettled interest rates, the Corporation has been able to maintain competitive interest rates. The matching of funds, monitoring and recommending

interest rate adjustments, and timely borrowing of funds also allowed the Corporation to exceed the interest rate margin established in our 1989-90 business plan. The result of this behind-the-scenes work enabled the Corporation to attract new clients and substantially increase loan volume.

It is important to emphasize that the measure of success FCC experienced this past year did not come at the expense of those clients who are in difficulty. FCC continued to be flexible wherever possible, in many cases reaching solutions that enable the farmer to remain on the land. Staff continued to work closely with Farm Debt Review Boards and Provincial Mediation Boards, providing arrangements whereby farm debt could be restructured. In the past year, FCC approved 1,604 concessions through the Farm Debt Review process. Such assistance has enabled many families to retain and rebuild their farm assets.

In 1989, the federal government, FCC's sole shareholder, approved a contribution of $200 million in capital, in accordance with its 1988 commitment to improve the Corporation's capital structure. This additional capital provides further financial stability for the Corporation, including the repayment of $200 million in long-term debt to Canada, and ensures that future clients will not be penalized by past FCC losses.

As the Corporation moves into the third year of its recovery strategy, we can take satisfaction in our achievements to date. Corporate policies have been redefined and improved. Our management team is coordinated and effective and staff efficient and well motivated. Information and accounting systems have been substantially improved, providing the Corporation with current and accurate data on which to plan.

COMMUNICATIONS

In the latter part of our fiscal year, management and staff turned their attention to rebuilding our image as an effective lender in the agricultural sector. Across Canada, staff have been able to shift their efforts from administration and collection of accounts to loan granting because of the reduction in the number of accounts in arrears and the general improvement of our loan portfolio.

The Corporation has developed an effective communication and advertising program. In January 1990, our new corporate slogan "*Investing in Good Business - Canadian Agriculture*" was adopted and a modest advertising campaign was undertaken. The main purpose of the campaign was to make the farm community aware that FCC is in the lending business, has loan products specifically designed for the agricultural sector and has experienced staff ready and able to work with farmers to develop effective business plans. To date, this communication effort has contributed to a 41 per cent increase in lending activity in the January to March quarter over the same period last year. The rebuilding of our loan portfolio will provide us with the foundation on which to develop further financial and management programs for Canadian farmers.

CANADIAN AGRICULTURE POLICY REVIEW

In December 1989, the Honourable Don Mazankowski, Minister of Agriculture announced a major agriculture policy review. The review process, which commenced with a conference and discussion paper entitled "*Growing Together*", enabled organizations and individuals to provide input to the government on an effective approach to policy review. Following the conference, several task forces were established to receive input, analyze data and provide policy options to the Minister from which a new Canadian agriculture policy could be developed. This timely, comprehensive review will allow government policy decisions to be made to ensure Canadian farmers have a level playing field on which to compete with other countries in the world marketplace.

Farm Finance and Management, including Farm Credit Corporation's role, are the focus

of one of the task forces formed as part of the review. This Task Force on Farm Finance and Management is to submit its report to the Federal/Provincial Agriculture Ministers' Conference in August 1990. In conjunction with the review, FCC has been asked to undertake a survey of approximately 8,000 farmers across Canada to provide the Task Force with a current report on the financial condition of the Canadian farm community.

FCC welcomes the policy review as we see it as an excellent opportunity to provide our views and recognize the views of others as to what the needs of the Canadian farmer are in the 1990s.

AUDITOR'S REPORT

In the fiscal year 1987-88, the Corporation increased the allowance for loan losses to $500 million as management's best estimate as to the probable losses on loans outstanding at that time. Since then, a net reduction of the allowance by $221 million has taken place, primarily as a result of actual losses incurred on loans that have gone through the recovery process. As at this fiscal year end, the balance of the allowance stands at $279 million and represents management's best estimate of probable losses on the loans outstanding.

The potentially negative impact on the farmers' ability to meet debt obligations and on the value of the Corporation's security for these loans, of factors such as a continuation of high interest rates, international trade disputes (particularly in the grain sector), forecasts of reduced farm incomes, and the uncertainty of the outcome of the current GATT negotiations has, in management's judgement, made it necessary to account conservatively for probable loan losses. The Auditor General, however, did not share management's opinion regarding the evidence supporting our conservative position and has therefore included a reservation in his report on our financial statements.

IN SUMMARY

The past decade has been one of constant change. Inflation, recession, the Canada-U.S. Trade Agreement, drought, volatile export markets, and high interest rates have all had an impact on Canadian agriculture and its related service industries. The 1990s will probably not be too different; however, development of long-term policies both nationally and internationally through the multi-national trade negotiations will help the Canadian agriculture industry deal with the pressures of change. The current GATT negotiations alone may require us to change some of the ways we do things. The outcome of these talks could mean we will have to be more competitive in the international marketplace with regard to price and product quality. Since Canada exports more than half of its agriculture production, international trade negotiations will continue to have a major impact on our agricultural industry. The Canada/U.S. Trade Agreement, combined with a consolidated European Economic Community in 1992, will represent some six hundred million consumers. These markets can open doors to the Canadian agri-food industry if we are willing to take the initiative and be aggressive. A well-defined Canadian agricultural policy will help farmers take advantage of these market opportunities.

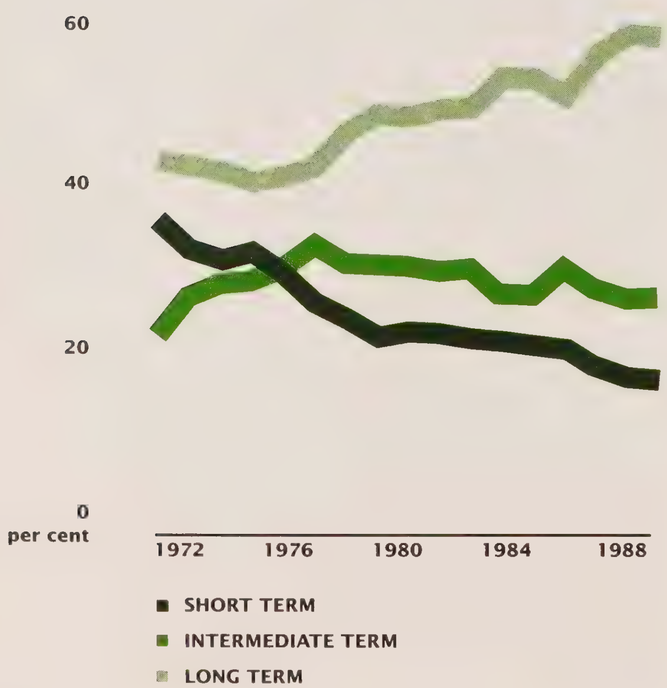
As we look to the future, I am confident Farm Credit Corporation will have an important role to play in the further development of Canadian agriculture. The Corporation, within the framework of a national agricultural policy, will continue to evaluate its products and services, striving to improve them to better meet the changing needs of Canadian farmers, as they address the challenges and opportunities of the domestic and international marketplaces.

James J. Hewitt
Chairman

FCC'S OPERATING ENVIRONMENT

Many factors affect the operations and financial performance of Canadian farmers and, consequently, of Farm Credit Corporation. Farmers' willingness to borrow for major capital investments and their repayment ability depend on many elements that are difficult to control. FCC's 1989-90 operating environment was influenced by agricultural economic conditions, national and international policy developments and provincial and federal programs and legislation.

CHANGES IN FARM DEBT STRUCTURE



The 1989-90 year began on a cautious note, particularly in western Canada, following the 1988 drought and little precipitation in many areas during the winter of 1989. However, more favourable climatic conditions in the spring and summer of 1989 generated cautious optimism in the farming community and more demand for farmland. Increased farmland values in 1989 combined with decreased interest rates encouraged some farmers to carry out their plans for expansion. However, it appears that fewer purchases were debt financed as farmers attempted to limit their use of credit and lenders placed a greater emphasis on repayment ability.

Other factors added to the caution in the farm community. The uncertainty of the Canada/U.S. Trade Agreement and the GATT negotiations reduced some farmers' willingness to make major capital investments, particularly producers of supply-managed commodities. The announcement of a major federal agricultural policy review has boosted the optimism of some farmers and escalated the concerns of others.

There was considerable variability in farm incomes and profit levels among commodities in 1989-90. The grain and oilseeds sectors recorded higher incomes in 1989 as inventories were sold off at relatively high prices. The beef sector experienced relatively stable prices and conditions, although margins for feedlot operations were reduced. Except for a few months last fall, hog production was not as profitable, and future profits are even more uncertain as a result of the U.S. countervailing duty. Dairy producers' incomes remained stable during the year

although the GATT negotiations continued to fuel producers' concerns. The fruit industry was also fragile, especially apple and grape production.

Access to provincial programs offering subsidized interest rates decreased the demand for FCC loans in some areas. In the early 1970s, the Corporation's share of the long-term credit market was about 60 per cent. In the late 1970s the banks and credit unions entered the market and by 1988 FCC's share had dropped to just over 32 per cent.

The total amount of credit outstanding and extended has been dropping for the last few years as farmers consolidate their debt situation. High interest rates, recoveries, debt write-offs, repayments and prepayments by farmers again reduced the amount of farm credit outstanding in 1989-90 in Canada.

Indices such as debt ratio, number of farmers in arrears, land values, Farm Debt Review Boad activities and farm bankruptcies show that the number of farmers in financial difficulty is decreasing. However, the situation is critical in the Prairies with a considerable number of borrowers still in arrears.

FCC's increase in lending activity this year during a period of limited growth in total credit demand is attributed to continued caution by commercial lenders in certain areas, financial pressures on provincial treasuries and active marketing of FCC's products and services.

CREDIT ADVISOR MARC FERLAND (RIGHT) MEETS WITH THÉRÈSE AND ANDRÉ MAURIER, HOG PRODUCERS FROM ST-DAMASE, QUÉBEC.

REPORT ON 1989-90 CORPORATE OBJECTIVES

PRIMARY OBJECTIVES

1 ***"To be an alternative source of competitively priced credit** to Canadian farmers whose businesses have reasonable potential for viability."*

• To help achieve this objective, FCC launched an advertising campaign to ensure the farming community was familiar with the changes to, and the availability of, its products and services. This initiative, combined with competitive interest rates, resulted in 2,371 loan approvals for $201 million in 1989-90 compared to 1,472 loans for $102.3 million in 1988-89.

2 ***"To work with financially distressed clients** to resolve their financial difficulties quickly and equitably so that by the end of the five-year planning period in 1993-94, 93 per cent of the dollar amount of FCC's loan portfolio and 97 per cent of the accounts will be classified as full accrual."*

• By working with clients in difficulty and, where appropriate, working with Farm Debt Review Boards, many problem accounts were resolved. Since the inception of the FDRB program, 93 per cent of the 6,034 hearings have resulted in resolution. In 73 per cent of all cases resolved, the farmer continued farming. As a result, 83 per cent of the $3.9 billion portfolio was classified as full accrual, compared to 81 per cent last year. With normal conditions in the farm sector over the intermediate term, this objective should be achieved by 1993-94.

3 ***"To restore the Farm Credit Corporation to an economically viable position** by seeking an appropriate capital structure and conducting its lending on a break-even basis."*

• The first phase of the Corporation's financial restructuring involved a capital contribution of $400 million in addition to the $200 million which was contributed in 1989-90. This enabled the Corporation to repay $600 million in long-term debt to Canada. This, combined with achieving our target margins over our cost of funds, plus the continued efforts of staff to add good quality loans to FCC's portfolio, has taken the Corporation one step closer to financial viability.

ENABLING OBJECTIVES

1 ***"To explore and develop new products and services** for the benefit of Canadian farmers."*

• Farm Credit Corporation initiated its fourth survey of the financial structure of Canadian agriculture. Survey results will be available in the fall of 1990 and should provide information on the changes in the financial structure of the farm sector and the changing credit needs of farmers.

• The Corporation initiated a project to build industry consensus on standardized farm financial accounting terminology and reporting procedures. These standards will assist in the reporting and analysis of farm financial

information and should develop consistency among those institutions providing financial and farm management services to the farm sector. This project is being conducted in cooperation with the Ontario Ministry of Agriculture and Food, and Employment and Immigration Canada.

- The Corporation's advisory services program and the Farm Syndicates Credit Act lending program have been evaluated. As a result, modifications in the advisory services program have been initiated and changes to the Farm Syndicates Credit Act will be proposed when farm credit legislation is being considered by the government.

- A one-year mortgage has been developed and will be implemented in 1990-91.

- A lease equity-building program has been developed for implementation in 1990-91 for those farmers whose leases expire in 1990-91. This feature will also be available for new leases.

2 ***"To optimize corporate performance*** *by applying sound business principles and practices."*

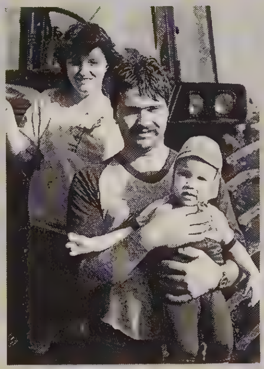
- The Corporation continues to improve its systems and practices to provide accurate and timely information for decision-making. As a result, the Corporation has achieved or out-performed financial targets in the following key areas:

\- The loss from the current year's operations of $2.7 million is $70.7 million better than the $73.4 million loss anticipated in FCC's 1989-90 operating budget.

\- The arrears of $193.3 million are 32 per cent lower than the $283.5 million arrears last year and are near the $190.8 million target established for 1989-90.

\- The interest margin at 2.34 per cent on lending is above the target of 2.25 per cent.

FCC CONTINUES TO SERVE MANY FARM FAMILIES SUCH AS YOLANDE AND YVES ROUX, DAIRY FARMERS FROM TINGWICK, QUÉBEC.



CREDIT ADVISOR KEITH DIXON (LEFT) MEETS WITH EMMA AND NICK GERBER, DAIRY PRODUCERS FROM WELLESLEY, ONTARIO

3 ***"To assist employees*** *to continue to maximize their performance through training and a positive working environment."*

• In supporting a work environment conducive to improved productivity, creativity and commitment to our clients, the Corporation:

- undertook initiatives across Canada to reinforce the importance of providing service that meets or exceeds the expectations of FCC's clients.

- provided employees with tools and delivered courses to assist in making our clients aware of the Corporation's products and services.

- provided resources where workloads were considered excessive to ensure that superior service to our clients could be maintained.

4 ***"To attract outstanding new employees*** *including representative numbers of women, disabled persons, aboriginal peoples and visible minorities through excellence in recruiting measures."*

• Through its emphasis on quality recruitment, effective promotional processes, and development initiatives, the Corporation has attracted and retained a highly qualified and committed staff, dedicated to serving the agricultural community and assisting FCC in meeting its business objectives.

• FCC improved the representation level of women in its largest professional category, the credit advisors group, made positive strides with regard to the representation levels of members of all special-interest groups and provided personal development opportunities to assist in the realization of its employment equity objectives.

LENDING OPERATIONS

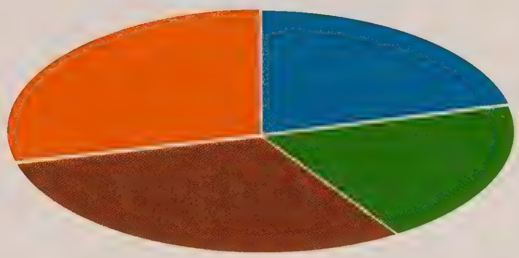
The Corporation approved 2,371 loans this year, as compared to 1,472 the preceding year. Most of the loans were to purchase additional land (37.3 per cent) or to repay debts (38.2 percent). The net amount of the loans, $201 million, far exceeds the $102.3 million in loans approved last year.

The Corporation has always been dedicated to offering farmers the best loan products available. This commitment has led to the development of a financial analysis software package, an effective tool our financial counsellors can use to help borrowers manage their farm businesses better. FCC will continue to pursue this and other initiatives to ensure Canadian farmers have access to leading-edge farm financial management technology.

Other projects for improving client service were also implemented this year. The Corporation has completely revamped the loan application forms to make them easier for farmers to use and understand. The new forms are compatible with the financial analysis software and together they will allow faster, more complete processing of financial information.

FCC's decentralized operations allow greater delegation of authority to our credit advisors, thus providing a faster response to farmers' loan applications.

LOANS APPROVED IN 1989-90
UNDER FARM CREDIT ACT



- **5 YEAR** **571 LOANS** **$43.0 MILLION**
- **10 YEAR** **761 LOANS** **$61.5 MILLION**
- **6 YEAR** **478 LOANS** **$38.8 MILLION**
- **15 YEAR** **561 LOANS** **$57.7 MILLION**

More and more farmers today hold a second job to diversify or to supplement their income. In step with this new reality, FCC has broadened the definition of "principal occupation" to allow our credit advisors to accommodate farmers who have other jobs but who are still committed to agriculture. We have also introduced a streamlined structure for administrative fees. Prepayment privileges have been introduced, appraisal fees have been revised and application fees are no longer required.

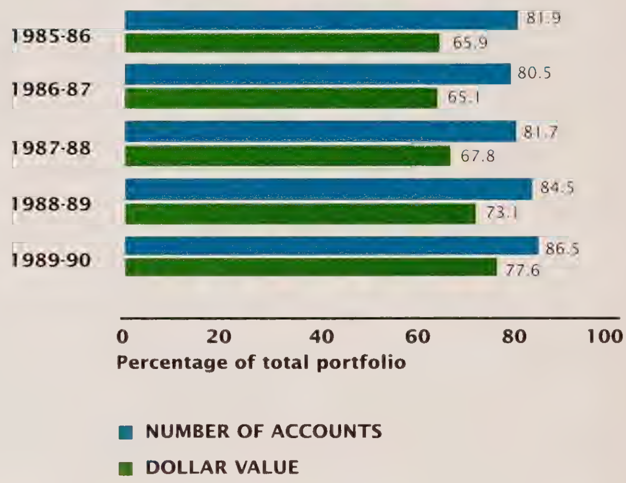
FARM FINANCIAL MANAGEMENT

For a number of years, FCC has offered its borrowers counselling services in farm financial management. To determine if the services offered still meet farmers' needs, FCC conducted an evaluation of the program. The findings of the survey confirmed the need for such a product and pointed to the need to modify FCC's counselling services.

Based on farmers' feedback, a modified advisory services product is being designed to assist farmers in making the best business decisions possible. Access to such services provides additional tools to help clients succeed through better financial analysis and planning. With the cooperation of farmers and our staff, a pilot project will be completed during the next fiscal year, with the product to be introduced across the country in the spring of 1991.

LOAN PAYMENTS IN ARREARS BY FISCAL YEAR

ACCOUNTS IN GOOD STANDING BY FISCAL YEAR



LOAN ADMINISTRATION

Reducing arrears continued to be a major priority for FCC. Arrears totalled $193.3 million by the end of the fiscal year, a drop of 32 per cent from a year earlier. Although the reduction in arrears this fiscal year fell just short of target, the result was encouraging. This is the second consecutive year that arrears have decreased after climbing for 13 years.

While substantially reducing arrears, the Corporation has maintained a policy of being firm but fair. Every account in arrears is considered individually, with the focus on analyzing all reasonable alternatives and where possible, finding a solution. Hence, when farmers face difficult situations, we are ready to look at all alternatives to enable them to continue operating their farms.

Across Canada, approximately 86 per cent of FCC's accounts are in good standing. Improved loan administration systems, which require closer contact with clients, enable FCC to monitor loan risk. This, combined with FCC's Portfolio Risk Management Program, assist in managing risk of losses and continue to contribute to the strengthening of FCC's loan portfolio.

PROPERTY MANAGEMENT

When loan arrears cannot be paid, farmers are encouraged to seek a solution with the aid of the Farm Debt Review Board. When debt restructuring is not possible, a voluntary transfer of the property is often the only solution. In most cases, FCC leases the property back to the former owners to allow them to continue their farm operations. At the end of the fiscal year 1,128 properties were leased this way. Most of the leases are for three years with an option to purchase at the end of the term.

During 1989-90, the Review Boards received 2,143 requests from our clients, and 1,997 were resolved. We approved 1,604 concessions. These concessions were valued at $41.8 million, compared with $40.9 million in 1988-89.

FARM DEBT REVIEW BOARDS CONCESSIONS GRANTED (1989-90) $41.8 MILLION

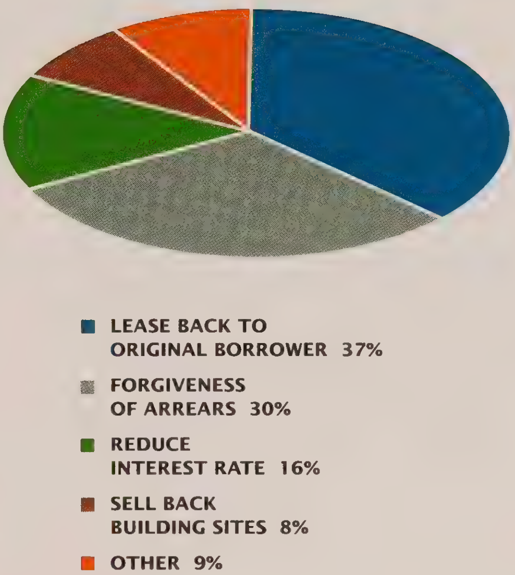


TABLE 1

FINANCIAL CHARACTERISTICS OF FARM OPERATIONS BORROWING FROM FCC (EXCLUDING CBL)

	1989-90 (AVERAGE)	1988-89 (AVERAGE)
Total assets	**$732,850.0**	$634,083.0
Per cent net worth	**63.2**	60.7
Loan approved gross	**$ 90,464**	$ 83,894
Loan-to-security ratio	**0.65**	0.54

ADMINISTRATION OF PROPERTIES BY FISCAL YEAR

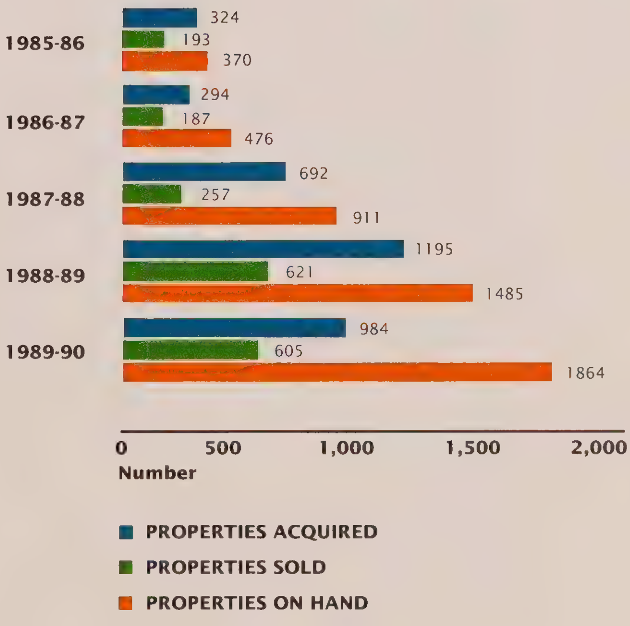


TABLE 2

LOANS APPROVED BY PROVINCE (FARM CREDIT ACT)

	1989-90		1988-89	
	NUMBER	**NET AMOUNT ($000'S)**	NUMBER	NET AMOUNT ($000'S)
British Columbia	**97**	**12,667**	49	5,329
Alberta	**85**	**7,133**	117	6,884
Saskatchewan	**751**	**43,242**	558	28,698
Manitoba	**315**	**19,277**	156	5,994
Ontario	**431**	**50,185**	260	25,150
Québec	**603**	**60,693**	262	23,376
New Brunswick	**46**	**3,289**	41	3,714
Prince Edward Island	**31**	**2,380**	20	1,493
Newfoundland	**12**	**2,105**	9	1,648
Canada	**2,371**	**200,971**	1,472	102,286

TABLE 3

LOANS RECEIVABLE PORTFOLIO AS AT MARCH 31, 1990 ($000'S)

	NUMBER	PRINCIPAL NOT DUE	ARREARS	ACCRUED INTEREST	AMOUNTS HELD FOR FUTURE INSTALMENTS	NET TOTAL
British Columbia	1,992	143,438	4,111	6,205	(4,876)	148,878
Alberta	10,021	456,854	21,098	27,051	(5,628)	499,375
Saskatchewan	21,542	1,218,614	112,797	75,669	(9,678)	1,397,401
Manitoba	6,362	296,029	20,897	14,839	(4,610)	327,156
Ontario	15,232	1,012,142	27,934	40,000	(23,790)	1,056,286
Québec	6,953	423,543	3,411	16,467	(7,728)	435,693
New Brunswick	842	52,414	1,139	2,474	(1,414)	54,613
Nova Scotia	85	3,603	155	127	(100)	3,785
P.E.I.	725	36,128	1,366	1,960	(822)	38,632
Newfoundland	130	11,956	410	462	(476)	12,352
Canada	63,884	3,654,721	193,318	185,254	(59,122)	3,974,171
Adjustment to principal and interest relating to non-accrual loans		28,097	74,496	18,799		121,392
Loans receivable	**63,884**	**3,626,624**	**118,822**	**166,455**	**(59,122)**	**3,852,779**

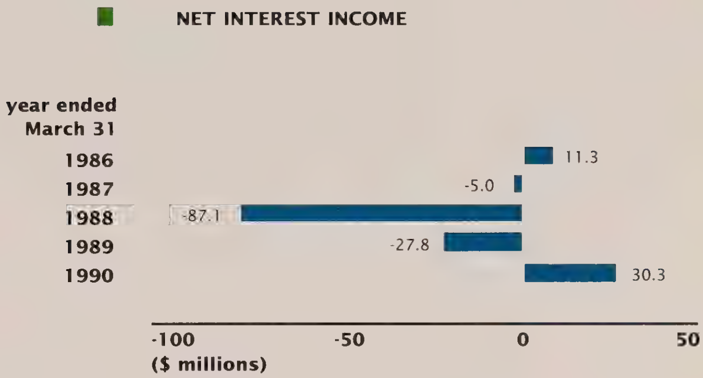
FINANCIAL OPERATIONS

The results achieved by FCC, in helping Canadian farmers succeed, have been built on a foundation of sound financial management. Fiscal year 1989-90 marked the second consecutive year of significant financial recovery for the Corporation. Loss from current year's operations was $2.7 million, compared to $56.9 million in 1988-89. The improvement in results was due primarily to a combination of a significant reduction in non-accruing loans, reduced interest expense resulting from the repayment of long-term debt owed to Canada and higher property lease revenue.

The balance sheet also reflects an improved financial position as a result of the $600 million contribution of capital by the government and the resulting repayment of $600 million in long-term debt due to the government. Of this $600 million investment, $400 million was approved by the shareholder for the fiscal year 1988-89. The payment of these funds, however, could not be made until Parliament authorized an increase in the Corporation's contributed capital. Parliament authorized this increase in the fiscal year 1989-90, thereby allowing the payment of $400 million approved in the fiscal year 1988-89 and $200 million approved this fiscal year. This restructuring represents the second phase of the financial strategy designed to make the Corporation operationally effective and financially viable.

OPERATING RESULTS

Net interest income in the past year was positive for the first time in the last four years. A reduction in the number of non-accrual loans through recovery actions and collection efforts, combined with lower interest expenses, resulted in net interest income of $30.3 million.



Administrative expenses increased from $39.4 million in 1988-89 to $47.3 million in 1989-90. This increase was due partly to increased resources allocated to property management, land sales and activities to help clients resolve their financial difficulties. Other factors contributing to higher expenses were the increased lending volume, nearly double that of the previous year, and the achievement of a 32 per cent reduction in arrears.

Additional funds were allocated to launch a national advertising campaign to increase awareness of the products and services offered by the Corporation. Expenditures were also incurred to develop lending and financial controls and reporting systems, and to upgrade computer hardware and storage capacity.

Although administrative expenses increased, net interest income, together with substantially higher lease revenue, fully covered the Corporation's administrative expenses and provision for loan losses.

The Corporation is subject to the large corporations capital tax introduced in the April 1989 budget. The tax payable over the nine month period ended March 31, 1990 is $5.0 million, which is reflected in our statement of operations.

LOANS RECEIVABLE

The loans receivable portfolio at $3.9 billion reflects a decline of 8 per cent during the year, despite a successful lending year in which $201 million in new loans was approved. Reductions to the portfolio through borrowers' repayments and prepayments, loan write-offs and the conversion of loss accounts to properties exceeded the additions from new lending.

However, with a lower percentage of borrowers in financial difficulty and careful management of the risk assumed on new lending, the quality of the portfolio has improved. The year-end allowance for future loan losses was $71 million lower than the previous year end. Arrears were $90 million lower and the total owing on non-accruing loans was $167 million lower. This improved trend in the quality of the loan portfolio as measured by arrears, non-accrual loans and loan loss allowance is illustrated in Table 4.

ALLOWANCE FOR LOAN LOSSES

The Corporation began the year 1989-90 with an allowance of $350 million for probable future loan losses on the loans outstanding at that time. During the year, losses of $74 million were recorded, net of recoveries of previous amounts written off. These losses comprised actual loan losses, write-downs of real estate, and losses on the sale of real estate.

After adding $3.2 million to the allowance to provide for potential losses on the new lending during the year, the allowance at March 31, 1990 stood at $279 million. After considerable detailed assessment of the portfolio and taking into account the uncertainty facing Canadian agriculture today, the allowance has been maintained at $279 million. It is, in management's opinion, an appropriate and prudent amount to provide for probable losses on the loans receivable portfolio.

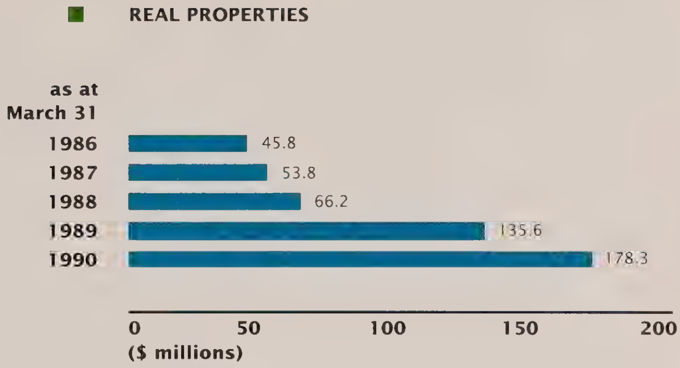
TABLE 4

LOANS RECEIVABLE ANALYSIS

AT MARCH 31 ($ MILLIONS)	**1990**	1989	1988	1987	1986
Total loans receivable	**3,853**	4,182	4,702	4,956	4,984
Allowance for loan losses	**279**	350	500	219	156
% of total loans receivable	**7.2**	8.4	10.6	4.4	3.1
Total owing on non-accruing loans	**641**	808	1,057	696	N/A
% of total loans receivable	**16.7**	19.3	22.5	14.0	N/A
Total arrears	**193**	283	377	343	245
% of total loans receivable	**5.0**	6.8	8.0	6.9	4.9

REAL PROPERTIES

The total value of real estate held by the Corporation at March 31, 1990 was $178 million, 31 per cent higher than at year end 1988-89. Whenever possible, properties are sold or leased at market rates to former owners to enable them to continue farming. During the year, the Corporation acquired $118 million in properties, while disposals totalled $76 million.



SOURCES AND USES OF CASH

On an aggregate basis, the inflow of funds exceeded the outflow by $7 million during the year. The principal sources of funds were the $313 million of principal payments on loan receivables, $256 million provided by borrowing, $76 million in proceeds from real estate sales, and the $600 million increase in contributed capital. These funds were used primarily to service the Corporation's debt to the extent of $1,111 million and fund new loans disbursed to farmers of $185 million. Cash and short-term investments at year end totalled $48 million, an increase of $7 million from March 31, 1989.

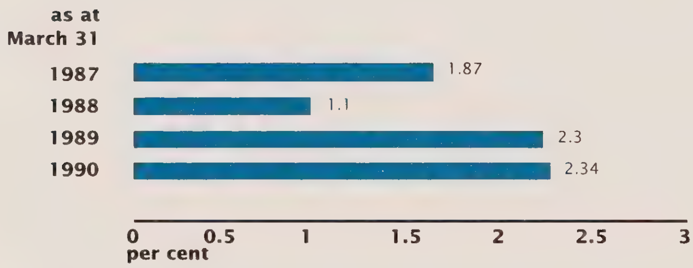
FUNDING ACTIVITY

All funding for the year was sourced from the government's Consolidated Revenue Fund at prevailing market interest rates. Long-term borrowing of $256 million was secured to fund new lending and loan renewals. In addition to principal repayments of $511 million, the Corporation's outstanding debt was reduced by a further $600 million as a result of the financial restructuring agreement with the government.
As a result of following a policy of matched funding, the Corporation has also been able to reduce significantly its interest-rate risk exposure. Further reductions in interest-rate risk exposure are anticipated, as portfolio management approaches are refined and developed. It is also anticipated that FCC will be funding part of its future financial requirements in the domestic and international capital markets, at advantageous terms merited by its AAA credit status as a sovereign credit.

INTEREST RATES

Despite volatile interest rates during the year, the Corporation achieved an interest margin on the year's lending of 2.34 per cent, compared with last year's 2.30 per cent. Careful consideration and timing of funding combined with judicious lending rate adjustments allowed the Corporation to realize adequate interest margins, while at the same time offering attractive rates to its clients. By offering Canadian farmers innovative financial products (such as the Shared Risk Mortgage), which take advantage of developments in financial markets, loan demand remained strong throughout the year.

INTEREST MARGINS



FINANCIAL MANAGEMENT

Notable progress was made in improving the Corporation's financial control and reporting systems. During the year, major improvements were initiated as follows:

• an improved system to account for the interest calculations related to non-accruing loans;

• an improved real property accounting system, which provides better information for use in property management and the tracking of property transactions; and

• an improved system for calculating the estimates of the allowance for loan losses to provide more reliable data on probable loan losses.

An Asset/Liability Management Committee of key financial and lending personnel was established to consider and recommend changes for more effective management of both assets and liabilities. More meaningful and timely reporting of key financial results and indicators, through enhanced management reporting standards and procedures, was also introduced.

Major studies are now under way to review and improve the Corporation's loan accounting system, which maintains complete financial information on some 64,000 accounts, and the asset/liability management system, which provides data and decision support information for portfolio management.

These initiatives will enable FCC to operate on a more fundamentally sound financial basis in future periods. As a result, the Corporation will continue to serve the farming community by providing a suitable alternative source of competitively priced credit to farmers who have reasonable potential for long-term viability.

FIVE-YEAR REVIEW

OPERATIONAL	**1989-90**	1988-89	1987-88	1986-87	1985-86
Total loans receivable portfolio					
Number	**63,884**	67,216	72,182	75,487	78,183
Amount ($ millions)	**3,852.8**	4,182.3	4,701.6	4,955.9	4,984.3
Under Farm Credit Act					
Number of loans approved	**2,371**	1,472	2,674	4,311	2,278
Amount of loans approved					
gross ($ millions)	**214.5**	136.1	333.8	610.1	247.0
net ($ millions)	**201.0**	102.3	206.8	336.4	237.7
Average size of loans approved gross ($)	**90,464**	92,444	124,827	141,530	108,413
Percentage of loans in good standing	**86.5**	84.5	81.7	80.5	81.9
Percentage of total owing in good standing	**77.6**	73.1	67.8	65.1	65.9
Real property held at year end					
number	**1,864**	1,485	911	476	370
amount ($ millions)	**178.3**	135.6	66.2	53.8	45.8
Under Farm Syndicates Credit Act					
Number of loans approved	**73**	22	39	44	37
Amount of loans approved ($ millions)	**2.5**	0.6	1.4	1.2	1.1

FINANCIAL	**1989-90**	1988-89	1987-88	1986-87	1985-86
Revenues and expenses ($ millions)					
Net interest income (expense)	**30.3**	(27.8)	(87.1)	(5.0)	11.3
Net provision for loan losses	**3.2**	(20.2)	394.0	98.3	99.4
Other income	**22.5**	12.5	4.6	3.9	1.6
Administrative expenses	**47.3**	39.4	35.3	33.1	35.0
Large corporations capital tax	**5.0**	-	-	-	-
Loss for the year	**2.7**	34.6	511.8	132.5	121.4
Non-accrual loans					
Number	**5,495**	7,040	7,950	4,211	N/A
Total owing ($ millions)	**641.4**	808.2	1,056.7	659.9	N/A
Reduction of interest income due to non-accrual ($ millions)	**30.9**	75.0	130.8	55.4	40.0
Financial position ($ millions)					
Total assets	**3,816.7**	4,031.7	4,310.4	4,908.6	5,015.0
Total liabilities	**3,890.6**	4,702.9	4,947.0	5,033.0	5,007.0
Equity (Deficiency) of Canada	**(73.9)**	(671.2)	(636.6)	(124.8)	7.7

ANNUAL FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of management and have been approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada and which have been consistently applied. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

The approach followed by the Corporation to estimate the allowance for loan losses, on a consistent basis with past years, includes a specific review of undersecured loans and a general estimate of probable losses inherent in the secured portion of the portfolio.

As a result of loans going through the recovery process the amount of the allowance attributable to specific individual loans has declined from the March 31, 1989 level. The increased uncertainty facing Canadian agriculture at this time, and its potential negative impact on farmers' ability to repay and the value of the Corporation's security has, in management's judgement, necessitated an increase in the general component of the allowance by $90 million. The general allowance is prudential in nature, and provides for loan losses which have not been specifically identified.

Other than an amount of $3.2 million, which was charged to operations to provide for probable loan losses on current year lending, no amount has been charged to or credited to operations with regard to the allowance for loan losses. The Board of Directors supports management's opinion that, in an environment of high interest rates, low export prices, forecasts of reduced farm incomes, particularly in the grain sector, and the uncertainty surrounding the current GATT negotiations, it would be imprudent to further reduce the allowance at this time.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations. In addition, the internal and external auditors have full and free access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon.

James J. Hewitt	**Max Pierce**
Chairman and Chief Executive Officer	*Senior Vice-President, Finance*

AUDITOR'S REPORT

To the Minister of Agriculture

I have examined the balance sheet of Farm Credit Corporation as at March 31, 1990 and the statements of operations and deficit and changes in cash position for the year then ended. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances, except as explained in the following paragraph.

Loans of $3,573 million are stated net of an allowance for loan losses of $279 million. Although the Corporation has provided me with evidence and analyses in support of the inclusion of $188 million in the allowance, it was unable to provide adequate support for the balance of $91 million. As a consequence, I was unable to satisfy myself as to the appropriateness of this additional amount. Accordingly, I was unable to determine whether any adjustments might be necessary to the allowance for loan losses and consequentially to the change in estimate - provision for loan losses, the net income (loss) for the year and the deficit.

In my opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to satisfy myself with respect to the appropriateness of the additional $91 million in the allowance for loan losses described in the preceding paragraph, these financial statements present fairly the financial position of the Corporation as at March 31, 1990 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Farm Credit Act and the by-laws of the Corporation.

Ottawa, Canada
June 7, 1990

Kenneth M. Dye, F.C.A.
Auditor General of Canada

BALANCE SHEET

	1990	1989
	(000's)	
Assets		
Cash and short-term investments	**$ 48,104**	$ 40,894
Accounts receivable	**2,277**	4,720
Loans, net of allowance for loan losses of $279,365 (1989 - $350,000) (Notes 3 and 4)	**3,573,414**	3,832,351
Real estate acquired in settlement of loans (Note 5)	**178,281**	135,642
Fixed assets	**5,113**	3,793
Unamortized debt discount and issue expenses	**9,530**	14,319
	$3,816,719	$4,031,719

Liabilities		
Accounts payable and accrued liabilities	**$ 16,466**	$ 6,549
Short-term notes	**110,456**	69,269
Provision for employee termination benefits	**3,154**	2,807
Loans payable (Note 6)	**3,760,523**	4,624,285
	3,890,599	4,702,910

Deficiency of Canada		
Contributed capital (Note 8)	**818,333**	218,333
Deficit	**(892,213)**	(889,524)
	(73,880)	(671,191)
	$3,816,719	$4,031,719

Approved on behalf of the Board by:

James J. Hewitt
Chairman and
Chief Executive Officer

George Klosler
Director

STATEMENT OF OPERATIONS AND DEFICIT

	1990	1989
	(000's)	
Interest income		
Loans receivable	**$386,347**	$389,410
Short-term investments	**13,801**	5,581
	400,148	394,991
Interest expense		
Loans payable	**356,545**	410,972
Short-term notes	**13,305**	11,840
	369,850	422,812
Net interest income (expense)	**30,298**	(27,821)
Provision for loan losses - current year lending (Note 4)	**(3,202)**	(2,203)
Lease and other revenue from real estate, net of operating expenses of $5,496 (1989 - $5,653)	**20,779**	11,157
Other income	**1,763**	1,377
Income (loss) before non-interest expenses	**49,638**	(17,490)
Administrative expenses	**47,337**	39,444
Income taxes - large corporations capital tax (Note 9)	**4,990**	–
Loss from current year's operations	**(2,689)**	(56,934)
Change in estimate - provision for loan losses	–	22,372
Loss for the year	**(2,689)**	(34,562)
Deficit at beginning of the year	**889,524**	854,962
Deficit at end of the year	**$892,213**	$889,524

STATEMENT OF CHANGES IN CASH POSITION

	1990	1989
	(000's)	
Operating activities		
Loss for the year	**$ (2,689)**	$ (34,562)
Items not involving cash		
Net provision for loan losses	**3,202**	(20,169)
Change in accrued interest receivable	**4,285**	19,185
Change in accrued interest payable	**(9,100)**	(14,736)
Amortization of debt discount and issue expenses	**4,789**	5,148
Provision for income taxes	**4,990**	–
Other	**7,700**	(3,012)
Cash provided by (used in) operating activities	**13,177**	(48,146)
Investing activities		
Loans to farmers	**(185,338)**	(107,958)
Loans receivable repaid	**313,409**	330,232
Proceeds from disposal of real estate	**75,748**	78,551
Other	**3,689**	(1,546)
Cash provided by (used in) investing activities	**207,508**	299,279
Financing activities		
Loans from Canada	**256,550**	130,350
Loans repaid to Canada	**(998,669)**	(246,896)
Loans repaid to capital markets	**(112,543)**	–
Increase in contributed capital	**600,000**	–
Change in short-term notes	**41,187**	(112,674)
Cash provided by (used in) financing activities	**(213,475)**	(229,220)
Increase in cash and short-term investments	**7,210**	21,913
Cash and short-term investments at beginning of the year	**40,894**	18,981
Cash and short-term investments at end of the year	**$ 48,104**	$ 40,894

NOTES TO FINANCIAL STATEMENTS

1. THE CORPORATION

(a) Authority and objectives

Farm Credit Corporation ("the Corporation") was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The Corporation makes and administers farm loans under the authority of the Farm Credit Act and the Farm Syndicates Credit Act, and administers programs as requested by the Government of Canada ("the government").

The Corporation's objective, as clarified in the Corporate Plan approved in 1988, is to provide mortgage credit and complementary financial services to Canadian farmers on a break-even basis and, when called upon by the government, to deliver specific government programs on a cost-recovery basis.

(b) Financial restructuring

The government has approved a financial restructuring for the Corporation which covers a four-year period ending March 31, 1992. It provides for the financial restructuring of the Corporation and establishes operating policies and management guidelines within which the Corporation is to operate.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Interest income is recorded on the accrual basis until such time as management determines that a loan should be classified as non-accrual. A loan is classified as non-accrual when:

1. Principal or interest is six months past due, unless the loan is well secured, or
2. When circumstances indicate doubt as to the ultimate collectibility of principal or interest.

When a loan is classified as non-accrual, uncollected interest recognized in the year is reversed against interest income and, where necessary, uncollected interest recognized in previous years is provided for in the allowance for loan losses.

Interest payments on non-accrual loans are recorded as interest income when received, where it has been determined that the loan does not require a specific provision for loss; otherwise, they are credited to principal.

Non-accrual loans return to accrual status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Lease and other revenues from real estate are recorded when earned.

Loan fees and charges are recorded as other income when earned.

(b) Allowance for loan losses

The allowance for loan losses represents management's best estimate of probable losses on the loans outstanding at the end of the year. The allowance has a specific component which is based on the review of outstanding undersecured loans and a general component, which is prudential in nature, to provide for loan losses which have not yet been specifically identified.

The allowance is based on a periodic evaluation of the loan portfolio in which numerous factors are considered including future land values, commodity prices, federal and provincial governments' programs, and climatic conditions. Management has estimated the effect of these risks and uncertainties when determining the allowance for loan losses. However, future agricultural and economic conditions are not predictable with certainty and, therefore, actual loan losses may vary from management's estimate.

The government has agreed to reimburse the Corporation for concessions it will make to farmers during the next year as a result of its participation in the Farm Debt Review Board process. The type of concessions to be made through the process, and the extent to which they will reduce the Corporation's loan losses, are not presently known. They are, therefore, not included in establishing the allowance for loan losses.

Actual loan losses, write-downs of acquired real estate, and losses on the sale of real estate are charged to the allowance while recoveries are credited to the allowance. Adjustments of the allowance to the level regarded by management as being appropriate are applied to operations.

(c) Real estate acquired in settlement of loans

Real estate is recorded at the lower of the amount of the loan outstanding or the estimated net realizable value at the time of acquisition. Subsequent declines in estimated net realizable value are recorded in the year in which they occur.

(d) Farm Debt Review Process

Amounts received on behalf of farmers for concessions granted by the Corporation under the farm debt review process are applied as if they had been received directly from the farmers.

(e) Fixed assets

Fixed assets are recorded at cost less accumulated depreciation or amortization. Depreciation and amortization are provided over the estimated useful lives of the fixed assets according to the following methods and rates:

	METHODS	RATES
Equipment and furniture	Declining balance	20%
Computer equipment & software	Straight-line	20%
Leasehold improvements	Straight-line	Lease term plus the first renewal option.

(f) Debt discount and issue expenses

Debt discount and issue expenses are amortized on a straight-line basis over the life of the debt and are included in interest expense on loans payable.

(g) Translation of foreign currencies

Loans and related interest payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are included with debt discount and issue expenses. These amounts are amortized on a straight-line basis and are charged to interest expense over the lives of the obligations.

(h) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to matching the employees' contributions for current service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

(i) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(j) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred tax benefits which have not been recorded and will only be recognized when there is virtual certainty that they will be realized.

3. LOANS

	ANNUAL INTEREST RATE %	1990	1989
			(000's)
Loans to farmers, secured by mortgages	5 - 16 ¾	**$3,808,429**	$4,137,681
Loans to farm syndicates, secured by notes	6 ¼ - 16 ½	**5,400**	4,858
Loans receivable from real estate sales, secured by agreements for sale or mortgages	5 - 15 ¾	**38,950**	39,812
		3,852,779	4,182,351
Less: Allowance for loan losses		**279,365**	350,000
		$3,573,414	$3,832,351

	1990	1989
Amounts due by fiscal year, based on loan terms, are as follows:		
Principal past due	**$ 48,640**	$ 55,550
1990	**–**	425,767
1991	**236,661**	252,293
1992	**294,419**	294,685
1993	**294,176**	290,456
1994	**422,187**	456,964
1995	**377,520**	335,925
1996 and beyond	**1,995,748**	1,836,342
	3,669,351	3,947,982
Accrued interest - current	**113,245**	78,815
- arrears	**70,183**	155,554
	$3,852,779	$4,182,351

At March 31, 1990, the Corporation had 5,495 loans representing $642 million of loans receivable classified as non-accrual (1989 - 7,040 representing $808 million). During the year, interest not recognized on non-accrual loans amounted to $31 million (1989 - $75 million). The accumulated interest not recognized on non-accrual loans outstanding at March 31, 1990 amounted to $122 million (1989 - $171 million).

4. ALLOWANCE FOR LOAN LOSSES

The summary is as follows:

	1990	1989
	(000's)	
Balance at beginning of the year	**$350,000**	$ 500,000
Write-offs, net of recoveries	**(73,837)**	(129,831)
Provision for loan losses – current year lending	**3,202**	2,203
Change in estimate – provision for loan losses	–	(22,372)
Balance at end of the year	**$279,365**	$ 350,000
Specific allowance	**$124,365**	$ 285,000
General allowance	**155,000**	65,000
Balance at end of the year	**$279,365**	$ 350,000

5. REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS

The summary is as follows:

	1990	1989
	(000's)	
Balance at beginning of the year	**$135,642**	$ 66,204
Acquisitions	**118,205**	138,299
Disposals	**(75,566)**	(68,861)
Balance at end of the year	**$178,281**	$135,642

Real estate represents farm property acquired in the process of administering loans receivable and must be disposed of within five years of acquisition or such further period as the Governor-in-Council may prescribe.

The Corporation has 1,864 properties (1989 - 1,485), of which 1,010 ($76 million) are saleable within the next year. Of these, 650 properties ($67 million) may be eligible for lease renewal. The balance are leased for periods of up to four years.

6. LOANS PAYABLE

	ANNUAL INTEREST RATE %	1990	1989
		(000's)	
Loans from Canada, secured by notes			
Farm Credit Act	6 - 12	**$2,442,104**	$3,182,998
Farm Syndicates Credit Act	9 ¼ - 11	**3,736**	4,962
Loans from capital markets, secured by notes			
Farm Credit Act			
Payable in:			
U.S. dollars (435,000,000)	9 - 10 ½	**591,447**	591,447
Swiss Francs (100,000,000)	11	**59,666**	59,666
Japanese Yen (7,660,000,000)	9 ¼	**69,500**	182,043
Canadian dollars	9 - 12 ¼	**495,000**	495,000
		3,661,453	4,516,116
Accrued interest		**99,070**	108,169
		$3,760,523	$4,624,285

	1990	1989
Amounts due by fiscal year are as follows:		
1990	**$ –**	$1,030,087
1991	**506,854**	470,392
1992	**423,305**	416,218
1993	**446,037**	640,663
1994	**543,069**	528,868
1995	**372,948**	302,126
1996 and beyond	**1,369,240**	1,127,762
	3,661,453	4,516,116
Accrued interest	**99,070**	108,169
	$3,760,523	$4,624,285

As part of the financial restructuring, $600 million of loans from Canada was repaid during the year from the increase in contributed capital. The government decided that no interest would be payable on these loans throughout the year.

7. LIMITS ON BORROWING

The Farm Credit Act limits the aggregate amount outstanding of the principal borrowings by the Corporation pursuant to the Act to twenty-five times the contributed capital of the Corporation. At March 31, 1990, the Corporation's outstanding borrowings under this Act, comprising short-term notes of $103 million and loans payable of $3,658 million, were 4.60 times the contributed capital of $818 million (1989 - 20.95 times the contributed capital of $218 million).

The Farm Syndicates Credit Act limits the loans from Canada pursuant to the Act to $25 million. At March 31, 1990, the Corporation's loans from Canada under this Act were $4 million (1989 - $5 million).

The Corporation continued to be restricted to borrowing its short- and long-term funding requirements from the government's Consolidated Revenue Fund. These borrowings require the approvals of both the Governor-in-Council and the Minister of Finance.

8. CONTRIBUTED CAPITAL

The contributed capital of the Corporation represents the amount received from Canada under section 12 of the Farm Credit Act. The statutory limit was increased by $600 million in the current year to $825 million (1989 - $225 million).

As part of the financial restructuring, Canada increased its contributed capital by $600 million. The Corporation has applied these amounts to the repayment of loans from Canada.

9. INCOME TAXES

(a) Timing differencesof approximately $392 million are available to the Corporation as at March 31, 1990. These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for loan losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carryforward for income tax purposes which has not been recognized in the financial statements amounts to $438 million. Of this amount, $8 million will expire on March 31, 1993, $14 million on March 31, 1994, $118 million on March 31, 1995, $194 million on March 31, 1996 and $104 million on March 31, 1997.

(b) During the year,the government announced its intention to implement a large corporations capital tax. As at March 31, 1990 the required legislation had not been approved by Parliament. This tax would be effective on July 1, 1989 and may be offset against any surtax payable. Since the Corporation has no surtax payable, the amount paid may be carried forward to be offset against any future surtax payable, and will expire by March 31, 1997 if not utilized.

10. COMMITMENTS TO FARMERS

As at March 31, 1990, loans to farmers approved but not disbursed amounted to $47 million (1989 - $23 million). These loans were approved at rates from 12 to 13.75 per cent. It is expected that the majority of these loans will be disbursed within the six-month period ending September 30, 1990, from funds to be borrowed by the Corporation at prevailing rates of interest at the time of borrowing.

11. OPERATING LEASES

Future minimum payments by fiscal year on operating leases for premises, with initial non-cancellable lease terms in excess of one year, are as follows:

	(000's)
1991	$ 2,558
1992	2,436
1993	1,817
1994	1,196
1995	944
1996 and beyond	2,327
	$11,278

These leases generally provide for the payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

12. GOVERNMENT PROGRAMS

(a) Commodity-based Loan Program

In its budget announcement of February 26, 1986, the government instructed the Corporation to establish the Commodity-based Loan Program for existing clients of the Corporation who were experiencing financial difficulty and who met certain eligibility criteria. The program provides for reduced interest rates with loan principal indexed to changes in commodity prices. The resulting net cash flow deficiencies, if any, are made up by the government subject to annual Parliamentary appropriation.

During the year, Commodity-based Loans in the amount of $2.6 million (1989 - $29 million) were disbursed, of which $0.4 million (1989 - $3 million) was used to pay arrears on the Corporation's previous loans. In addition, $13 million was received from the government in respect of cash flow deficiencies (1989 - $16 million) related to the Commodity-based Loan Program.

In the budget announcement of April 27, 1989, the government cancelled future lending under the Commodity-based Loan Program. Existing loans will, however, continue to be administered under the Program.

(b) Farm Debt Review Process

Subject to annual parliamentary appropriation, the Minister of Agriculture has been authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the Farm Debt Review Act. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments, or the Corporation proceeds with recovery action.

The government has allocated up to $270 million for concessions to be granted over the period ending March 31, 1991. Since the inception of the farm debt review process, the Corporation has offered $107 million in concessions and received $76 million from the government of which $39 million was received in the current year and $37 million in prior years. The committed difference of $31 million will be due and received over the next five years as farmers meet their commitments and thereby realize the benefits of the concessions.

13. COMPARATIVE FIGURES

Certain 1989 comparative figures have been reclassified to reflect the presentation adopted in 1990.

CORPORATE DIRECTORY

The Board of the Corporation has seven members appointed by the Governor-in-Council. The Chairman and Vice-Chairman of the Board are also officers of the Corporation. The Chairman is the Chief Executive Officer and, as such, directs and supervises the operations of the Corporation.

MEMBERS OF THE BOARD

Standing, from left to right:

John McKenna*
Potato marketer, Prince Edward Island

Judy Lloyd*, CMA
Certified Management Accountant,
Alberta

Thomas S. Barton
Senior Vice-President,
General Counsel and Corporate Secretary

C. Gerald Penney, CA
Vice-Chairman and Chief Operating Officer

George Klosler*
Tobacco, grain, ginseng and hog producer,
Ontario

Seated, from left to right:

Jeannine Bourque
Beef and hog producer, Québec

James J. Hewitt*, FCMA
Chairman and Chief Executive Officer

Frank Claydon
Assistant Deputy Minister,
Agriculture Canada

** Member of the Audit Committee*

The Advisory Committe is appointed by the Minister of Agriculture to advise him and the Corporation on lending policy matters. Most members are farmers or operators of agricultural businesses.

MEMBERS OF ADVISORY COMMITTEE

Standing, from left to right:

Jack Cumming
Ontario

Don Swenson
Saskatchewan

Leon Bremner
New Brunswick

Keith Barrett
Prince Edward Island

Don Knoerr
British Columbia

Seated, from left to right:

Jeannine Caron-Giasson
Québec

Garnet Rickard, Chairman
Ontario

Edward Mazer
Manitoba

William A. Verhagen
Alberta
(Absent when photo was taken)

CHAIRMEN OF APPEAL BOARDS

Appeal Boards, composed of farmers of proven ability and judgement, are established in each province to hear appeals from farmers who are dissatisfied with the Corporation's decision on their loan applications. During the year, 21 farmers went to an Appeal Board. Based on their recommendations, FCC modified its decision on five applications.

E.T. (Ted) Osborn
British Columbia

George Templeton
Alberta

Dennis C. Boldt
Saskatchewan

Kenneth Lyle Young
Manitoba

Edward J. Mailloux
Ontario

Robert Brochu
Québec

W. Burris Coburn
New Brunswick

Thomas Meredith
Nova Scotia

Wilbert MacKenzie
Prince Edward Island

Dennis Galway
Newfoundland

SENIOR EXECUTIVES

James J. Hewitt
Chairman and
Chief Executive Officer

C. Gerald Penney
Vice-Chairman and
Chief Operating Officer

Thomas S. Barton
Senior Vice-President,
General Counsel and
Corporate Secretary

Brian Strom
Senior Vice-President,
Operations

Max Pierce
Senior Vice-President,
Finance

Terry Kremeniuk
Vice-President,
Research and Planning

SuzAnne Doré
Vice-President,
Administration

Pierre Laflamme
Vice-President,
Corporate Audit

Dave Fraser
Vice-President, Lending

Madonna Bailey
Vice-President and
Treasurer

Colin M. Brooker
Vice-President and
Controller

Janice Whitters
Executive Assistant to the
Vice-Chairman and
Assistant Corporate
Secretary

DESIGN : MARUSKA STUDIOS

PHOTOGRAPHY:

ALRICK HUEBENER
DAN MARUSKA
DAVE MCNEIL
JOHN SLEEMAN

IN-PRO
INDUSTRY, SCIENCE AND TECHNOLOGY CANADA
MITCH PHOTOGRAPHY
ROSS DAVIDSON PILON

	REGIONAL OFFICES	DISTRICT OFFICES	FIELD OFFICES
ALBERTA/ BRITISH COLUMBIA•	**George Jones** Regional Vice-President 101 St. Building Suite 1550 10250-101st Street Edmonton T5J 3P4 (403) 495-4488	Grande Prairie, Kelowna, Lacombe, Lethbridge, Vegreville, Westlock	Abbotsford, Athabasca, Barrhead, Brooks, Calgary, Camrose, Dawson Creek, Drumheller, Edmonton, Evansberg, Fairview, Falher, Hanna, Medicine Hat, Olds, Peace River, Stettler, St. Paul, Vermilion, Wainwright, Wetaskiwin
*Yukon Territory is served through the Edmonton Office			
SASKATCHEWAN	**Russ Holm** Regional Vice-President 2401 Saskatchewan Dr. Suite 110 Regina, S4P 4H9 (306) 780-5610	North Battleford, Prince Albert, Regina, Saskatoon, Swift Current, Yorkton	Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake, Moose Jaw, Rosetown, Tisdale, Weyburn, Wynyard
MANITOBA	**Marshall Stachniak** Regional Vice-President 400-5 Donald St. Winnipeg R3L 2T4 (204) 983-4039	Brandon, Portage la Prairie, Winnipeg	Arborg, Carman, Dauphin, Killarney, Morden, Neepawa, Virden
ONTARIO	**Bob Aumell** Regional Vice-President 450 Speedvale Ave. West Unit 201 Guelph N1H 7G7 (519) 821-1330	Chatham, Guelph, Lindsay, Nepean, Walkerton, Woodstock	Barrie, Campbellford, Cornwall, Essex, Goderich, Kingston, Lambeth, Listowel, New Liskeard, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Wyoming
QUÉBEC	**Jacques Doran** Regional Vice-President Édifice Champlain Suite 2000 2700 Laurier Blvd. Box 3600 Ste-Foy G1V 4C7 (418) 648-3993	Ste-Foy, St-Hyacinthe, Rock Forest	Alma, Arthabaska, Cap-de-la-Madeleine, Drummondville, Gatineau, Granby, Joliette, Rimouski, Roberval, St-Georges de Beauce, St-Jean, St-Jérôme, Valleyfield
ATLANTIC	**John van Abbema** Regional Vice-President Boulevard Plaza Phase 1, Suite 230 1133 St. George Blvd. Moncton, N.B. E1E 4E1 (506) 851-6595	Charlottetown, Moncton	Fredericton, Grand Falls, Kentville, St. John's, Summerside, Sussex, Truro, Woodstock

1990-91 OBJECTIVES

PRIMARY OBJECTIVES

• To be an alternative source of competitively priced credit to Canadian farmers who have reasonable potential for viability.

• To work with financially distressed clients to resolve their financial difficulties quickly and equitably so that by the end of the planning period in 1994, 93 per cent of the dollar amount of FCC's loan portfolio and 97 per cent of the accounts are classified as performing.

• To restore Farm Credit Corporation to an economically viable position by seeking an appropriate capital structure and conducting its lending operations on a break-even basis.

ENABLING OBJECTIVES

• To optimize corporate performance by applying sound business principles and practices.

• To explore and develop new products and services for the benefit of Canadian farmers.

• To assist employees to continue to maximize their performance through training and a positive working environment.

• To attract outstanding new employees including representative numbers of women, disabled persons, aboriginal people, members of visible minorities and of all cultural groups reflected in Canadian society through excellence in recruiting measures.

CREDIT ADVISOR GABRIEL GHEBREZGIABIHER (LEFT) DISCUSSES WITH LEONA AND DARWIN EISNER, GRAIN AND BEEF PRODUCERS, FROM TOGO, SASKATCHEWAN.

Farm Credit Corporation Canada

Société du crédit agricole Canada

Canada

FARM CREDIT CORPORATION
Annual Report 1990-1991

MISSION STATEMENT

"To provide the Canadian farmer with a reliable source of long-term credit and personalized counselling services."

CONTENTS

CORPORATE PROFILE

Farm Credit Corporation's (FCC) mandate is to make, administer and supervise farm loans and to carry out such other duties and functions as may be assigned to it by the Governor in Council. FCC was established and given its mandate under the authority of the Farm Credit Act (FCA) in 1959. FCC is a Crown Corporation reporting to Parliament through the Minister of Agriculture.

FCC's role is to provide mortgage credit and complementary financial services to Canadian farmers on a break-even basis and, when called upon by government, to deliver specific programs on a cost-recovery basis. In this role, FCC is an alternative source of competitively priced credit to farmers who have significant potential for commercial viability. FCC staff offer counselling services in farm planning and financial management. The Corporation also makes and administers loans under the Farm Syndicates Credit Act (FSCA) and works with the Farm Debt Review Boards (FDRB) to assist farmers in resolving their financial difficulties.

FCC's Head Office is in Ottawa. The Corporation's staff includes 719 permanent employees and 70 term employees. Its activities are carried out through six regional offices, and 100 district and field offices located in agricultural areas of Canada.

FCC'S VALUES

We, at the Farm Credit Corporation, believe in…

- our long-term commitment to Canadian agriculture and the financial viability of our individual clients;
- operating a cost-effective organization;
- dealing with our clients in a fair and businesslike manner;
- providing the best client service possible;
- encouraging innovation in product development and client service;
- fostering the personal and professional growth of FCC's staff at all levels;
- promoting teamwork and team spirit.

Ce rapport annuel est aussi disponible en français.

Head Office Address
Farm Credit Corporation
434 Queen Street
P.O. Box 2314
Postal Station D
Ottawa, Ontario
K1P 6J9

The Honourable
Bill McKnight, P.C., M.P.
Minister of Agriculture
Room 401, Confederation Bldg.
House of Commons
Ottawa, Ontario
KlA 0A6

The Honourable
Gilles Loiselle, P.C., M.P.
President of the Treasury Board
Room 807, Confederation Bldg.
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Ministers:

On behalf of the Board of Directors, I am pleased to submit Farm Credit Corporation's annual report for the fiscal year ended March 31, 1991.

The report includes the financial statements and the auditor's report, in accordance with the Financial Administration Act.

Again this year, FCC improved its financial position. Substantial progress has been made, allowing the Corporation to record an operating surplus for the first time in nine years, and enabling FCC to achieve its cost-recovery objective. Staff expertise, client service quality and improvements to management systems and practices contributed to FCC's meeting or exceeding virtually all performance objectives.

Your government's ongoing support and leadership are gratefully acknowledged.

Yours sincerely,

JAMES J. HEWITT
Chairman and Chief Executive Officer

LENDING AND FINANCIAL SUMMARY

OPERATIONAL	1990-1991	1989-1990	CHANGE
LOANS APPROVED (FARM CREDIT ACT)			
NUMBER	**2,013**	2,371	(358)
AMOUNT ($ MILLIONS)	**176.9**	201.0	(24.1)
LOANS APPROVED (FARM SYNDICATES CREDIT ACT)			
NUMBER	**118**	73	45
AMOUNT ($ MILLIONS)	**3.2**	2.5	0.7
LOANS RECEIVABLE PORTFOLIO			
NUMBER	**61,475**	63,884	(2,409)
AMOUNT ($ MILLIONS)	**3,611.0**	3,852.8	(241.8)
LOANS IN ARREARS AT YEAR END			
NUMBER	**7,300**	8,636	(1,336)
AMOUNT ($ MILLIONS)	**132.6**	193.3	(60.7)
REAL PROPERTIES AT YEAR END			
NUMBER	**2,371**	1,864	507
VALUE ($ MILLIONS)	**224.7**	178.3	46.4

FINANCIAL	1990-1991 (*$ millions*)	1989-1990 (*$ millions*)	CHANGE (*$ millions*)
REVENUES AND EXPENSES			
NET INTEREST INCOME	**47.4**	30.3	17.1
NET PROVISION FOR LOAN LOSSES	**3.7**	3.2	0.5
NET REVENUE FROM REAL ESTATE	**34.1**	20.8	13.3
OTHER INCOME	**1.3**	1.7	(0.4)
ADMINISTRATIVE EXPENSES	**52.5**	47.3	5.2
LARGE CORPORATIONS TAX	**6.2**	5.0	1.2
INCOME (LOSS) FOR THE YEAR	**20.4**	(2.7)	23.1
NON-ACCRUAL LOANS			
TOTAL OWING ON NON-ACCRUAL	**485.3**	641.4	(156.1)
REDUCTION OF INTEREST INCOME DUE TO NON-ACCRUAL	**21.6**	30.9	(9.3)
FINANCIAL POSITION AT YEAR END			
TOTAL ASSETS	**3,810.4**	3,816.7	(6.3)
TOTAL LIABILITIES	**3,663.8**	3,890.6	(226.8)
EQUITY (DEFICIENCY) OF CANADA	**146.6**	(73.9)	220.5

CHAIRMAN'S REPORT

In the two previous annual reports, I have been able to indicate improvements in the Corporation's financial activities. We continued to have positive results in the past fiscal year. The Corporation recorded its first surplus in nine years, with net income totalling $20.4 million. FCC has thereby achieved the 1988 financial restructuring exercise goal of breaking even on operations by 1991.

FCC has effectively managed the impact of change over the past three years. Through policy development, strategic planning, improved information systems, and shareholder support, the Corporation has recovered from its financial difficulties. Our efforts are now directed to further improvement of our client services and to the rebuilding of our loan portfolio.

OPERATIONAL HIGHLIGHTS

This past fiscal year, FCC's lending volume reflected farmers' prudent attitude towards incurring additional debt. High interest rates during most of the fiscal year contributed to a dampening of demand for agricultural credit. FCC lent $180.1 million to farmers across Canada in 1990-1991 compared to $203.5 million in 1989-1990. However, softening interest rates late in the fiscal year stimulated loan demand substantially in the last quarter.

The Corporation's operating results showed a $20.4 million net income as opposed to a $2.7 million loss on operations reported last year. Loan administration also showed improvement with 7,300 accounts in arrears, down from 8,636 accounts in arrears a year ago. The amount in arrears totalled $132.6 million, down from $193.3 million last year.

FCC returned to the financial markets with the launch of a short-term promissory note program in October 1990. This program has been very successful, allowing FCC the flexibility of borrowing from either the financial markets or the federal government's Consolidated Revenue Fund. In the coming year, the Corporation intends to pursue longer term borrowing via the domestic or international markets, when opportunities enable FCC to pass on lower interest rates to clients.

ALLOWANCE FOR LOAN LOSSES

During the fiscal year, $50.4 million of losses incurred on accounts which had gone through the collection process were charged against the Corporation's allowance for loan losses. At year end the allowance, as shown on the Corporation's financial statement, totalled $232.7 million. While arrears have declined there are still a number of FCC clients in financial difficulty.

Both the farmers' ability to pay their debt obligations and the realizable value of the Corporation's loan security are adversely impacted by a number of external factors. These factors include the continuation of low international prices for agricultural products, particularly for the grains and oilseeds sector, the continued uncertainty caused by the recent failure of GATT negotiations, and the continuation of the EEC-US agricultural trade subsidy war as exemplified by the open-ended funding of the U.S. Export Enhancement program. As a result of these considerations, management elected to continue with its prudential approach to estimating loan losses. Therefore, it is management's opinion that the year-end allowance of $232.7 million is the best estimate of probable losses on the loans outstanding. However, the Auditor General has, for the second year, included a reservation in his report on financial statements in regard to this matter.

"A NEW ACT WOULD PROVI
THE CHANGING NEEDS OF FARME

PROPERTY MANAGEMENT

Last fiscal year, land sales totalled $59.9 million. Property administration has increased with the Corporation holding 2,371 properties as at March 31, 1991 compared to 1,864 properties as at March 31, 1990. The increase is partially due to the Corporation's Equity-Building Lease initiative announced last year. This initiative allows a three-year extension to existing leases, with an equity-building program designed to enable lessees, who were former owners of the land, to accumulate a portion of the equity needed to buy back the land from the Corporation. At year end, 94 per cent of eligible farmers had taken advantage of the Equity-

Building Lease program. This program has kept farm families on the land and offered them an opportunity to regain ownership. At year end, clients had a balance of $1.2 million in the equity-building fund.

REBUILDING THE PORTFOLIO

The Corporation has now turned to rebuilding its loan portfolio. A Business Development Committee has been formed to coordinate FCC's national marketing and business development activities. In early 1991, a marketing and communications program was developed to inform Canadian farmers of the ongoing commitment of the Corporation and its staff. This campaign has been very effective, with a substantial increase in loan inquiries in the last quarter of the year. A 1-800 telephone number has been introduced to enable farmers across Canada to contact the Corporation for information regarding its products and services. Improved client services is an ongoing priority for the Corporation in rebuilding its effectiveness in serving the farm community.

THE FUTURE

Future developments in the farm sector will be driven by market forces and government policy initiatives. In January 1991, the federal government accepted a recommendation from its Task Force on Farm Safety Nets and announced the Gross Revenue Insurance Plan (GRIP) and the Net Income Stabilization Account (NISA). These farm safety nets are designed to provide farmers, particularly grain producers, with a long-term, predictable and effective support system rather than the ad hoc assistance efforts of the past few years.

The Task Force review of Farm Finance policy, in which the Corporation is actively participating, should be completed this summer, with the report to be presented at the Federal/Provincial Ministers' Conference in July 1991. The key objective for the Corporation is to see a clearly defined role for FCC, including the prospect of greater harmonization between federal and provincial credit programs. This coordination would benefit the farmer through effective, reasonably priced loan instruments, and would result in effective management of tax dollars for the federal and provincial governments.

The Corporation has recommended to the Task Force on Farm Finance that a new Farm Credit Act be considered by the federal government in the coming year. The new legislation would replace the present Act which came into force in 1959. Such legislation would provide the Corporation with the flexibility to respond to the changing needs of farmers and the ability to develop new products and services.

HE CORPORATION WITH THE FLEXIBILITY TO RESPOND TO
ND THE ABILITY TO DEVELOP NEW PRODUCTS AND SERVICES."

CONCLUSION

The Corporation has achieved virtually all the goals that were set out in its 1988 financial restructuring exercise. The financial restructuring, improved operational results, reductions in arrears, effective information systems and improved communications with the agricultural community have all contributed to this achievement. The main contribution, however, can be attributed to the staff of the Corporation, who took up the challenge presented to them in 1988 and have been the catalyst in our success. The Corporation is now better positioned to respond to the long-term financial needs of Canadian farmers as they meet the competition of the global marketplace.

Jim Hewitt

JAMES J. HEWITT
Chairman and Chief Executive Officer

FCC'S OPERATING ENVIRONMENT

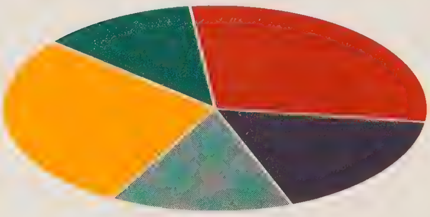
The financial performance of Farm Credit Corporation depends on the success of Canadian farmers and the strength of the agricultural economy. New capital investment required by farmers and their ability to repay existing debt are affected by many factors external to FCC and the farmer. These factors make up FCC's operating environment and include agricultural economic conditions, national and international policy developments, and provincial and federal programs and initiatives.

During the 1990-1991 fiscal year, a significant tightening of monetary policy was experienced in Canada, resulting in an increase in interest rates, a slowdown of the economy and a reduced demand for farm credit. Towards the end of the year, interest rates dropped quickly but not before the economy slipped into a recession. The uncertainty surrounding the economy, combined with high interest rates for most of the year, reduced the credit demands of farmers; as a result, total farm credit extended in Canada during the year declined.

TOTAL LONG-TERM FARM DEBT OUTSTANDING

AS OF JANUARY 1, 1990
$ 14.1 BILLION

- FCC 29%
- CREDIT UNIONS 14%
- BANKS 28%
- PROVINCIAL GOVERNMENTS 12%
- OTHERS 17%



Realized net farm income dropped significantly for the second year in a row in 1990-1991 even though farmers in Western Canada harvested record grain crops. Yields were more than offset by low prices. The low world grain prices were a result of record grain production around the world, and of the grain subsidy dispute between the United States and the European Economic Community.

Uncertainty surrounding GATT and the Canada/U.S. Trade Agreement left farmers cautious about making any major capital investments.

Increased awareness of the environment has caused farmers to look more closely at environmentally friendly farm practices such as reduced tillage and alternative pest controls. Although the effect on producer operations to date has not been significant, costs associated with conforming to potentially new environmental legislation could have an impact on profitability.

Canadian farmland values had been rising for the past two years until July, 1990. However, since that time, national values have fallen an average of about 3.4 per cent between July 1, 1990 and January 1, 1991. Canadian farmland last saw reductions in value between 1981 and 1987, when decreases reached over 35 per cent. Land

FCC IS THE LARGEST SINGLE HOLDER
CREDIT WITH ABOUT 29 PER CENT

values are now at about the same level as they were in 1979. The most significant drop occurred in Saskatchewan in the last half of 1990 when farmland values declined by an average of 5.7 per cent. Reduced optimism due to an uncertain international policy environment and poor income prospects contributed to the lower values. Local conditions such as rainfall, early frosts and harvest conditions also affect values.

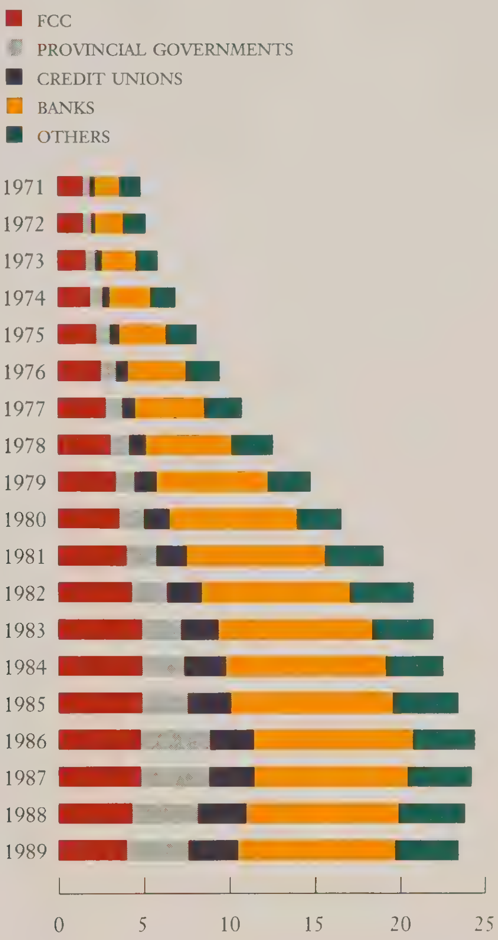
NG-TERM FARM
E TOTAL.

Total amount of farm debt outstanding in Canada has been dropping since 1987. Prepayments, recoveries, repayments, debt write-downs through the Farm Debt Review process, and less credit extended all contributed to reducing the debt farmers are carrying. FCC has historically been the major provider of mortgage credit to Canadian farmers and still remains the largest single holder of long-term farm credit with about 29 per cent of the total.

FCC continues to offer improved services and a wider range of farm mortgage products. Efforts have been focussed on increasing awareness among farmers of the availability of these products through the enhancement of marketing and client service initiatives.

The significant drop in interest rates in the last quarter of the fiscal year combined with new farm safety net programs and a slowly improving economy signal a healthier operating environment for the coming year.

Total farm debt outstanding
($ BILLIONS)



1

2

5

6

9

10

1

COMMUNITY INVOLVEMENT

Working with Canadian agriculture for more than a quarter century, FCC has developed unquestioned expertise in farm finance and farm financial management.

But FCC doesn't stop there. Every year, it invests in the human and financial resources needed to participate in a variety of community activities.

Awarding trophies, participating at farm shows, making speeches, holding information seminars, providing financial support to groups such as 4-H, sponsoring special activities, all these are examples of FCC demonstrating its community involvement and its pride in being part of Canadian agriculture.

1 Stephen Duckworth of Baie d'Urfé, Quebec, receives a certificate and a $200 scholarship from Quebec Regional Vice-President Jacques Doran.

2 Research Officer Ellery Robichaud of Atlantic Region chats with a visitor at a farm show.

3 Credit Advisor Pat Baker presents a $250 scholarship to Greg Griffin (left) of Fairview, Alberta.

4 Alberta/B.C. Regional Vice-President George Jones (left) and Hartmann Nagel, Chairman of Unifarm (Alberta) at a business meeting.

3

4

7

8

12

13

14

5 Credit Advisor Pat Toner awards a trophy to 4-Her Neil Charters of Kerrobert, Saskatchewan.

6 Special Loans Officer Michel Guindon (left), Credit Advisor Wynn Bunbury (second from left), Loans Officer Steve Wright (second from right) and visitors at Ontario region's booth at a farm show.

7 Leena Kaleva of Brampton, Ontario, receives a certificate and a trophy from Credit Advisor Daryl Ball.

8 Credit Advisor Gerald Berscheid (centre) at the Grand Opening of the Rural Service Centre in Kelvington, Saskatchewan, flanked by local, regional and provincial politicians.

9 Credit Advisor Angela Waite presents a $500 scholarship to 4-Her Colin Steen of Weldon, Saskatchewan.

10 Credit Advisor Vern Bohaychuk presents a globe to 4-Her Arthur Freeman of Vermilion, Alberta.

11 Ontario Regional Vice-President Bob Aumell (left) congratulates public-speaking contest 1990 winner Harry Stoddart of Bradford, Ontario.

12 Credit Advisor Lindsay Folk presents an award to Gary Anwender of Kendal, Saskatchewan.

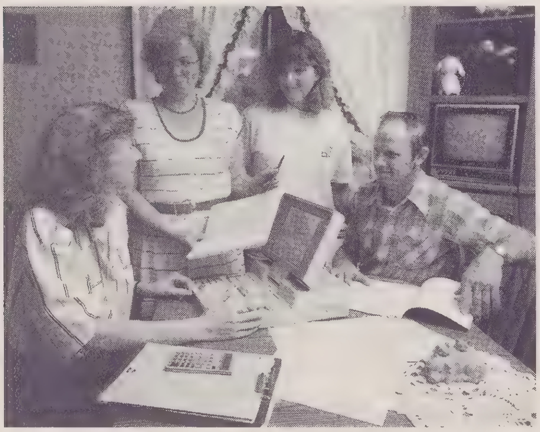
13 4-Her Debbie Atkins of Ridgedale, Saskatchewan, received a $500 scholarship from FCC.

14 Credit Advisor Jean-Pierre Duquette (left) presents a certificate and a $200 scholarship to Vallier Chouinard of St-Arsène de Rivière du Loup, Quebec.

PRIMARY OBJECTIVES

1 *"To be an alternative source of competitively priced credit to Canadian farmers whose businesses have reasonable potential for viability."*

The advertising campaign launched this year was aimed at dispelling the myths that many farmers have associated with FCC in the past. The Corporation is being strongly promoted as a service-oriented lender with competitive interest rates and quality loan products.



Credit Advisor Alma Kolkman (left) meets with Margaret, Heather (daughter) and Alvin Haskett, hog producers from Bright, Ontario.

A revised fee structure was approved by the Board of Directors and implemented in June 1990. The aim of this revision was to improve the Corporation's competitive position and to ensure the fee structure supports FCC's marketing efforts.

FCC demonstrated a competitive pricing strategy throughout the year, particularly in the pricing of the five-year loan product.

2 *"To work with financially distressed clients to resolve their financial difficulties quickly and equitably so that, by the end of the fiscal year 1993-1994, 93 per cent of the dollar amount of FCC's loan portfolio and 97 per cent of the accounts will be classified as full accrual."*

The FCC collection policy has been rewritten so that it focuses more on arrears prevention and prompt collection while maintaining the balance between the interests of the borrower and that of the Corporation.

Troubled accounts have continued to be quickly processed through the Farm Debt Review Boards. At year end, 79.6 per cent of the dollar amount and 88.1 per cent of accounts were classified as full accrual.

An Equity-Building Lease program was introduced in 1990 to assist farmers, who were unable to exercise their option to purchase at the termination of the existing lease, to acquire equity towards purchase in the future. Of the number of farmers eligible to lease back all or part of their farms, 94 per cent took advantage of the opportunity.

3 *"To restore the Farm Credit Corporation to an economically viable position by seeking an appropriate capital structure and conducting its lending on a break-even basis."*

The scheduled capital contribution of $200 million, made during 1990-1991 as part of the restructuring process, has put FCC in a significantly better financial position than it was when the process was approved in July 1988. As a result,the Corporation has reached a positive equity position for the first time since 1982.

The planned debt-to-equity ratio of 37:1 was exceeded and reached a level of 25:1 on March 31, 1991.

The break-even objective was also exceeded as net income for 1990-1991 reached $20.4 million, after providing $3.7 million for probable future losses on new lending during the year.

ENABLING OBJECTIVES

1 *"To explore and develop new products and services for the benefit of Canadian farmers."*

During the year, a farm business advisory product was developed and tested in various parts of the country. This product will provide farmers with more information on which to make sound business decisions.

A study of the feasibility of offering products with different terms and features was completed and will result in the introduction of new loan products during the next fiscal year.

A Business Development Committee was established to assist and support regional marketing efforts and to enhance business development.

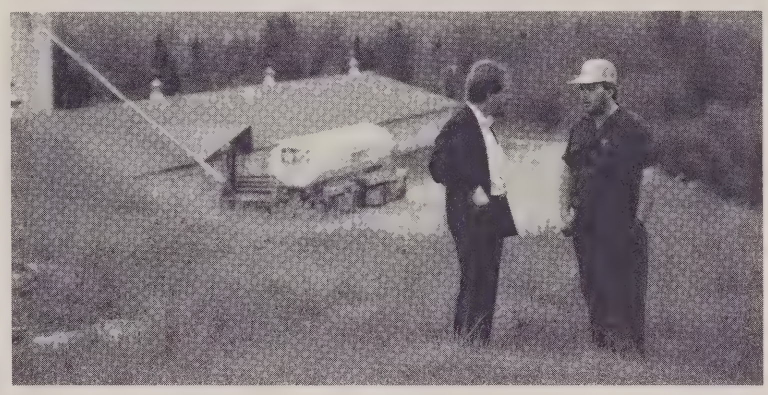
The Corporation evaluated the Shared Risk Mortgage (SRM) and its effectiveness as a loan product. It was determined that the SRM was a competitive product which offered a valuable alternative to farmers looking for shared risk financing.

The 1990 FCC Farm Survey was completed and its financial information was used for more effective product and service development. The survey is currently the only one of its kind in Canada. Results were presented across the country to various farm groups and government agencies, in cooperation with Agriculture Canada.

2 *"To optimize corporate performance by applying sound business principles and practices."*

Two software programs were established and their use implemented nationally. The Land Sales System and the Financial Analysis System provide credit advisors with the information required to make more accurate and efficient lending decisions and to improve service to FCC clients.

To encourage better communications with its clients, FCC decided to streamline the "legalese" in its standard mortgage document, and use instead a plain-language mortgage. Plain language is simple and direct communication; it makes use of words that are unambigous and commonly understood.



Credit Advisor Louis Payette (left) chatting with Mario Côté, hog producer from Stooke, Quebec.

Dave Coburn (right), egg and apple producer from Keswick Ridge, New Brunswick, talks with Credit Advisor Ed Giles.

Credit Advisor Maurice Chassé (centre) talks with Marcel (left) and Gilbert Michaud. "Les fermes GAM Michaud" produce potatoes and grain in Grand Falls, New Brunswick.

FCC installed its new Asset/ Liability Management System to identify and address the risks in the portfolio more efficiently.

Authorities were put in place for an eventual return to long-term capital markets.

FCC re-established a domestic short-term promissory note program in October.

The Corporation initiated development of an internal transfer pricing system for better expense allocation to improve management decision making and performance measurement.

3 *"To assist employees to continue to maximize their performance through training and a positive working environment."*

To empower its staff in the area of exemplary service delivery, FCC has developed a national client service course and is currently delivering it to all employees. Service improvement has been a major focus for the Corporation during the past year.

A project management workshop was designed and tested. Its aim is to improve the ability of project teams to manage more efficiently large projects within the Corporation.

At the regional level, special emphasis was placed on training credit advisors in the use of the Financial Analysis System and the Land Sales System. FCC is establishing itself as a leader in technology in the farm credit industry.

4 *"To attract outstanding new employees including representative numbers of women, disabled persons, aboriginal people and visible minorities through excellence in recruiting measures."*

To strengthen the quality of its staffing process, the Corporation undertook innovative recruitment measures with respect to both internal and external recruitment activities, and provided supervisory training in selection techniques. Other measures taken to improve the recruitment process included development of a corporate brochure targeted to potential candidates of credit advisor positions.

In 1990-1991, the Corporation continued to improve the representation of women in the management and professional categories, as well as in the representation of disabled people, aboriginal persons and visible minorities within the FCC workforce.

LENDING OPERATIONS

The Corporation approved 2,131 loans this year under both FCA and FSCA. This is 13 per cent less than last year. This reduction reflects the general dampening of demand for agricultural credit, due in large part to the persistence of high interest rates, low grain prices and decreasing land values throughout most of 1990. The net amount approved totalled $180.1 million, down from the $203.5 million approved last year. Land purchases and improvements (40 per cent) and debt consolidation (42 per cent) accounted for most of this year's lending volume.

During the past year, 91 per cent of those clients with maturing loans, who were offered extensions, chose to remain with FCC. This suggests a high degree of satisfaction with the Corporation's products, staff and service.

Loans approved in 1990-1991 under the Farm Credit Act

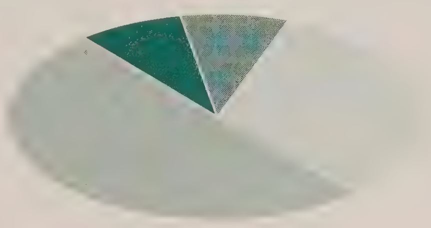
5-YEAR
698 LOANS
$58.0 MILLION

10-YEAR
191 LOANS
$14.6 MILLION

6-YEAR*
972 LOANS
$89.5 MILLION

15-YEAR OR MORE
152 LOANS
$14.8 MILLION

* SHARED RISK MORTGAGE



Client service continues to be a priority. During the year, FCC introduced plain-language legal documents, now in use in five of the ten provinces. A client service course has been developed with plans to have all FCC staff attend during the upcoming year.

A Business Development Committee was formed to coordinate marketing efforts. From left to right: Curtis Johnson, Bob Richards (Chairman), Florentia Scott and Jean Valin from Head Office.

Colin D. Smith, cereal grain and oilseed producer from Portage la Prairie, Manitoba, and his sister Norma Jonasson, talking with Credit Advisor Bob Harland (right).

FARM FINANCIAL MANAGEMENT

Development of an enhanced advisory services product is near completion with market testing in Alberta and Ontario currently underway. This initiative, along with the financial analysis package developed for FCC field staff last year, reflects the Corporation's innovative approach in responding to the management needs of Canadian farmers.

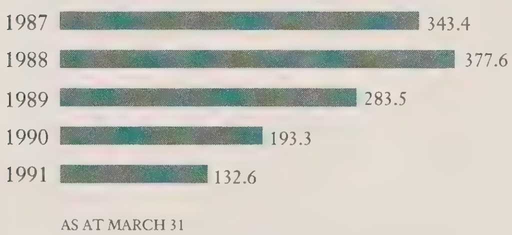
LOAN ADMINISTRATION

Arrears reduction continued to be a major priority for FCC. Arrears totalled $132.6 million as at fiscal year end, a decrease of $60.7 million this past year. Although substantial, this reduction was below target as low grain prices and persistent high interest rates throughout most of the past year challenged collection efforts, particularly in the West. However, some 88 per cent of FCC's accounts are in good standing, representing a two per cent improvement over last year.

Two major initiatives were undertaken during the year. FCC has nearly completed the development of an enhanced system for arrears monitoring and administration. A computerized Land Sales System was introduced to assist field staff in their appraisal work.

Loan payments in arrears

($ MILLIONS)



Accounts in good standing

(PERCENTAGE OF TOTAL PORTFOLIO)

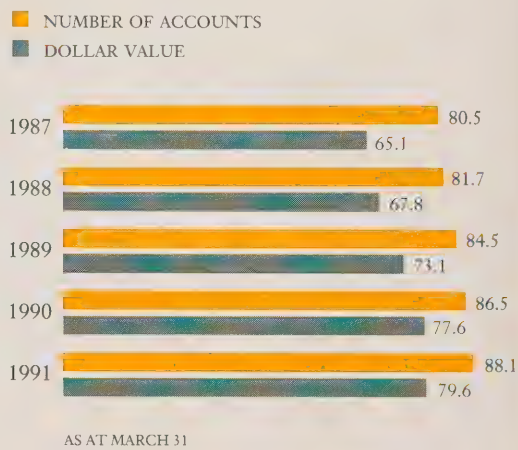


TABLE 1

FINANCIAL CHARACTERISTICS OF FARM OPERATIONS BORROWING FROM FCC

	1990-1991 *(average)*	1989-1990 *(average)*
TOTAL ASSETS	**$778,216**	$732,850
PERCENTAGE OF NET WORTH	**62.3**	63.2
LOAN APPROVED GROSS	**$94,633**	$ 90,464
LOAN-TO-SECURITY RATIO	**0.66**	0.65

PROPERTY MANAGEMENT

When it becomes apparent that, despite concessions, a client's debt to FCC cannot be serviced, another alternative through the Farm Debt Review process is voluntary transfer of the client's farm to FCC. The Corporation commits to lease the property back for up to three years so that the client may retain the use of the farm and possibly purchase it back from the Corporation.

To provide clients with an opportunity to accumulate some of the equity required to buy back their farm, the Corporation introduced the Equity-Building Lease program. This program was offered to clients transferring their property to the Corporation for the first time, and to those clients whose existing leases expired in 1990 or will expire in 1991.

Uptake of this program has been strong with 526 equity-building leases in place as at fiscal year end. On March 31, 1991, the Corporation owned 2,371 properties, most of which were located in the western provinces.

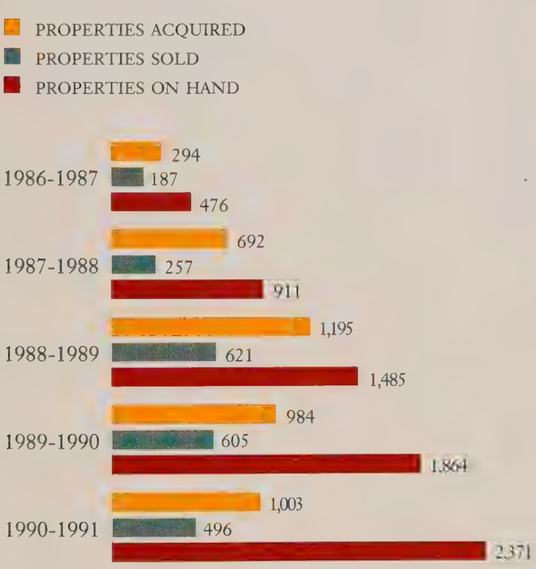
FARM DEBT REVIEW PROCESS

Each account in arrears is treated individually and, through the Farm Debt Review process, every attempt is made to find a solution in the best interests of the client and FCC.

During the 1990-1991 fiscal year, the Farm Debt Review Boards received 2,374 requests from FCC clients to review their accounts. The Corporation approved 2,206 concessions representing $59.4 million, a substantial increase over the 1,604 cases approved last year.

Administration of properties by fiscal year

(NUMBER)



Farm Debt Review Boards — Concessions granted in 1990-1991: $59.4 million

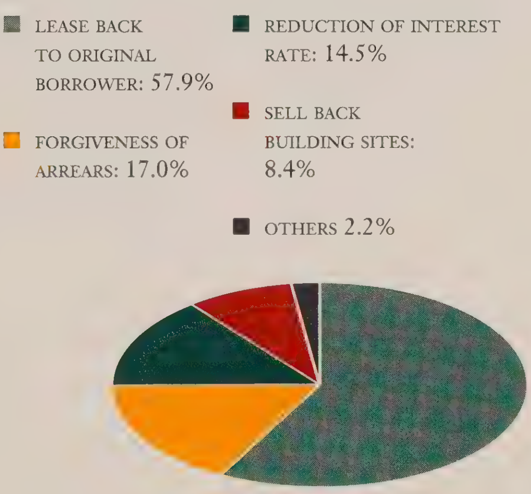


TABLE 2

LOANS APPROVED BY PROVINCE (FARM CREDIT ACT)

	1990-1991		1989-1990	
	NUMBER	NET AMOUNT (*$000's*)	NUMBER	NET AMOUNT (*$000's*)
BRITISH COLUMBIA	**98**	**13,291**	97	12,667
ALBERTA	**163**	**12,250**	85	7,133
SASKATCHEWAN	**443**	**23,190**	751	43,242
MANITOBA	**284**	**16,625**	315	19,277
ONTARIO	**461**	**56,837**	431	50,185
QUEBEC	**453**	**43,107**	603	60,693
NEW BRUNSWICK	**46**	**4,632**	46	3,289
NOVA SCOTIA	**13**	**1,895**	-	-
PRINCE EDWARD ISLAND	**43**	**4,178**	31	2,380
NEWFOUNDLAND	**9**	**923**	12	2,105
CANADA	**2,013**	**176,928**	**2,371**	**200,971**

TABLE 3

LOANS RECEIVABLE PORTFOLIO AS AT MARCH 31, 1991 ($000's)

	NUMBER	PRINCIPAL NOT DUE	ARREARS	ACCRUED INTEREST	AMOUNTS HELD FOR FUTURE INSTALMENTS	NET TOTAL
BRITISH COLUMBIA	1,972	144,203	4,470	6,337	(4,957)	150,053
ALBERTA	9,316	409,105	14,673	24,426	(5,186)	443,018
SASKATCHEWAN	20,425	1,093,266	80,281	68,267	(9,070)	1,232,744
MANITOBA	6,259	281,458	11,227	14,301	(4,624)	302,362
ONTARIO	14,787	982,701	16,948	39,061	(25,902)	1,012,808
QUEBEC	6,956	430,996	2,639	17,155	(10,577)	440,213
NEW BRUNSWICK	827	53,621	1,155	2,570	(1,420)	55,926
NOVA SCOTIA	84	4,618	50	496	(134)	5,030
PRINCE EDWARD ISLAND	716	37,011	685	1,964	(873)	38,787
NEWFOUNDLAND	133	12,430	444	159	(571)	12,462
CANADA	61,475	3,449,409	132,572	174,736	(63,314)	3,693,403
ADJUSTMENT TO PRINCIPAL AND INTEREST RELATING TO NON-ACCRUAL LOANS		25,610	27,886	28,895		82,391
LOANS RECEIVABLE	**61,475**	**3,423,799**	**104,686**	**145,841**	**(63,314)**	**3,611,012**

FINANCIAL OPERATIONS

The year 1990-1991 marked the third consecutive year of substantial financial recovery, and a turning point in the Corporation's results of operations and financial position. As a result of major capital infusions by the government and significant operational changes, net income and net equity turned positive, after several consecutive years of losses on operations. A $200 million capital contribution by the government was used to reduce outstanding debt, thereby improving the debt-to-equity ratio and reducing interest expense.

Total lending at $180.1 million reflected weak demand for agricultural loans due to a depressed outlook for certain major sectors of the agricultural economy and the relatively high interest rates prevailing throughout the year. New loans made, however, were more than offset by payments from farmers, the resolution of non-accruing loans, and significant property sales. As a result, total assets declined slightly in 1990-1991. At the same time, the Corporation was able to reduce its debt load by about six per cent, thereby significantly improving its net interest income.

INCOME

Net income of $20.4 million represented an improvement of $23.1 million over the $2.7 million net loss reported in 1989-1990.

Reflecting the decline in the loans receivable portfolio, gross interest income dropped to $392.5 million in 1990-1991, compared to $417.2 million in 1989-1990.

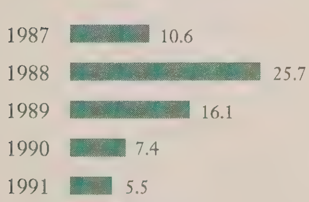
Although interest deducted from gross interest income for non-accruing loans totalled $21.6 million, this amount was significantly lower than the $30.9 million deducted the previous year.

Net interest income was $47.4 million, an increase of $17.1 million over the $30.3 million reported in 1989-1990.

Gurmail Sidhu (right) and his sister Gurmail Dhaliwell, raspberry producers from Abbotsford, B.C.

Non-accrual interest

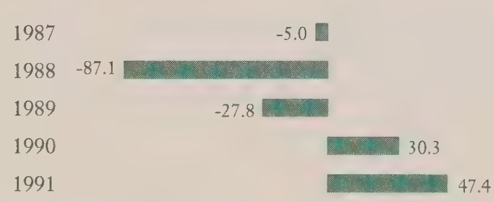
(PERCENTAGE OF GROSS INTEREST INCOME)



AS AT MARCH 31

Net interest income

($ MILLIONS)



AS AT MARCH 31

TABLE 4

LOANS RECEIVABLE PORTFOLIO ANALYSIS

AT MARCH 31 ($ MILLIONS)	1991	1990	1989	1988	1987
TOTAL LOANS RECEIVABLE PORTFOLIO	**3,611**	3,853	4,182	4,702	4,956
ALLOWANCE FOR LOAN LOSSES	**233**	279	350	500	219
% OF TOTAL LOANS RECEIVABLE	**6.4**	7.2	8.4	10.6	4.4
TOTAL OWING ON NON-ACCRUING LOANS	**485**	641	808	1,057	696
% OF TOTAL LOANS RECEIVABLE	**13.4**	16.7	19.3	22.5	14.0
TOTAL ARREARS	**133**	193	283	377	343
% OF TOTAL LOANS RECEIVABLE	**3.7**	5.0	6.8	8.0	6.9

Lease revenue and other income was $35.4 million, a 57 per cent increase over 1989-1990. The increase is primarily due to the larger number of Farm Debt Review Boards' settlements involving lease-back agreements and to the introduction of the Equity-Building Lease program.

EXPENSES

Interest expense of $343.4 million for 1990-1991 was $26.5 million lower than the previous year. The lower interest expense is primarily due to the prepayment of $200 million of long-term debt to the government, made possible by a corresponding increase in the capital contributed by the government. This additional capital contribution was the third phase of the financial restructuring exercise agreed to by the government in July 1988.

Administrative expenses increased by $5.2 million to $52.5 million. The increase is attributable to several factors including office renovation and lease renewals, higher staffing levels and increased salary and employee benefits costs, and enhancements made to computerized systems. The higher staffing levels, comprised of many term positions, were necessary to deal with high volumes of Farm Debt Review Boards' loan settlements, property administration and arrears collection in various parts of the country, as well as computerized and financial system development projects.

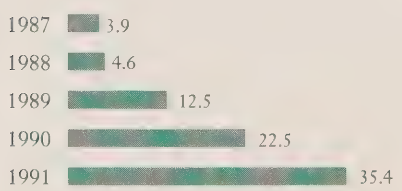
ASSETS

The return on average assets over the year improved to 0.53 per cent, compared to -0.07 per cent the previous year.

Although loans receivable balances were lower than the previous year, non-accrual loans represented a lower percentage of the total portfolio. The total owing on non-accrual loans dropped from $641.4 million, or 16.7 per cent of the portfolio, to $485.3 million, or 13.4 per cent of the portfolio. Progress was also made in reducing arrears, which ended the year at $132.6 million, for a reduction of $60.7 million, or 31.4 per cent, compared to the previous year end. Table 4 provides an analysis of the five-year trend in the loans receivable portfolio and the ratios illustrating the improving quality of the portfolio.

Lease revenue and other income

($ MILLIONS)



AS AT MARCH 31

The allowance for loan losses of $232.7 million at year end represented 6.4 per cent of total loans receivable. The comparable value for 1989-1990 was $279.4 million, representing 7.2 per cent of the total loans receivable. Loan write-offs against the allowance totalled $50.4 million, and $3.7 million was added to the allowance as a provision for probable future losses on the year's new lending. After considerable detailed assessment of the portfolio and taking into account the continued uncertainty facing Canadian agriculture, the allowance has been maintained at $232.7 million. It is, in management's opinion, an appropriate and prudent estimate to provide for probable losses on the loans receivable portfolio.

Real estate acquired through loan settlements was valued at $224.7 million at year end, up 26 per cent compared to $178.3 million held at the previous year end. Although the Corporation sold properties totalling $63.9 million, it acquired additional properties with a net value, after write downs to expected realizable value, of $110.3 million. To the extent possible, properties were sold or leased back to former owners to enable them to continue farming.

FUNDING ACTIVITY

The Corporation funded loan disbursements for new lending and loan extensions totalling $238.0 million. As farm properties were acquired, they were also re-funded for appropriate terms. A total of $256.3 million in long-term funding was secured during the year, an amount comparable to the previous year.

For the first time in several years, the Corporation returned to money markets with the launch of a promissory note program in October. The average money market funding outstanding since October was $122.0 million. The remaining portion of short-term funding, as well as all long-term funding, was borrowed from the government's Consolidated Revenue Fund.

The Corporation's outstanding debt at year end totalled $3.7 billion, down $200 million from the $3.9 billion outstanding at March 31, 1990.

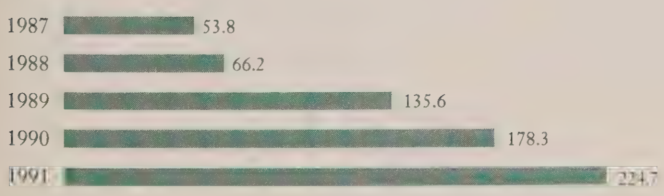
INTEREST RATES AND MARGINS

Interest rates were relatively high at the beginning of the year but declined gradually towards the end of the year. The Corporation adjusted its lending rates frequently throughout the year to maintain its competitiveness.

For the fiscal year, the Corporation attained a spread of 2.29 per cent on new and renewing loans, compared to 2.34 per cent for fiscal 1989-1990. This spread included a risk-adjusted cost of funds on the Shared Risk Mortgage and five-year products. A contributing factor to this positive variance was the carry-in of relatively low-cost long-term funds from the previous fiscal year.

Real properties

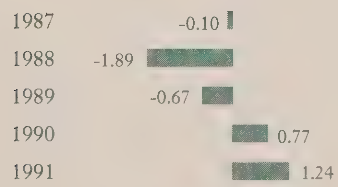
($ MILLIONS)



AS AT MARCH 31

Net interest margin — Net interest income/ total average assets

(PER CENT)



AS AT MARCH 31

The net interest margin on the Corporation's total assets has improved dramatically over the last five years from a negative 1.89 per cent in 1987-1988 to 1.24 per cent in the current fiscal year. The increase is due to the injection of $800 million of capital by the shareholder, the improvement in portfolio credit quality, as well as the achievement of spreads in excess of two per cent on new business in recent years.

SOURCES AND USES OF CASH

Net cash provided by operating activities, mainly interest and lease revenue less interest and administrative expenses, totalled $23.6 million, compared to $8.2 million provided in 1989-1990. A further $119.8 million in cash was provided from investing activities, representing the net of principal repayments from farmers and sales of real estate less cash disbursements on new loans.

In terms of cash flow for financing activities, $661.8 million in long-term debt was repaid, $256.3 million was borrowed to fund new lending and extensions, short-term borrowings were increased by $196.1 million, and a further $200 million of capital was contributed by the government. The net cash outflow from these activities was $9.4 million, compared to $213.5 million in 1989-1990.

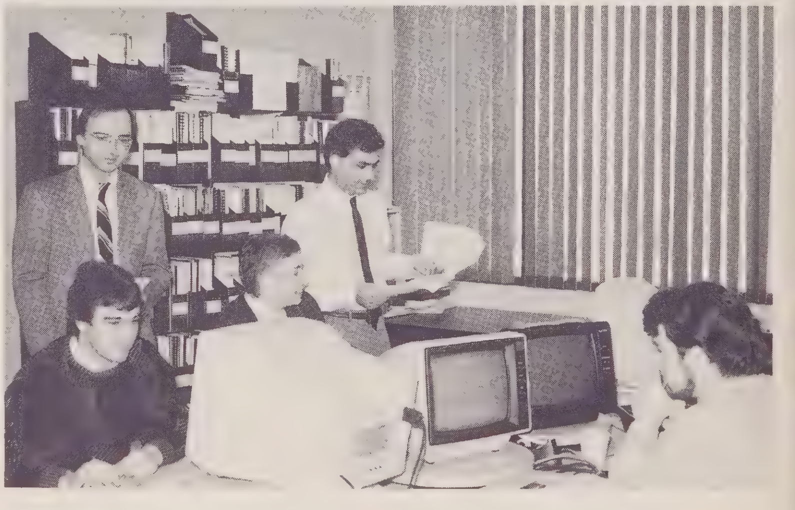
The Corporation closed the year with $182.1 million in cash and short-term investments, an increase of $134.0 million compared to the $48.1 million at March 31, 1990.

FINANCIAL MANAGEMENT

The Corporation's financial success in 1990-1991 was due to several factors. First, the government continued its support of the Corporation's mandate through additional capital injections. In addition, further improvements were made in operating systems and management practices. Just as importantly, the dedication and teamwork of staff were key to achieving the Corporation's objectives.

Several noteworthy projects contributed to the improvement of the overall quality of financial services. Treasury developed a comprehensive analysis and reporting system based on advanced banking systems technology. This system provides in-depth and reliable information on the asset and liability portfolios and thereby improves portfolio analysis and decision making. Other systems and network links were also developed to provide treasury officers with faster, more complete information on interest rate movements, economic developments and other factors affecting the financial markets.

Further progress was made in improving efficiencies and response times for the financial services provided to borrowers and other divisions within the Corporation. Notable accomplishments were a major review of the loan accounting system, and further development of the real property accounting system.



Madonna Bailey (centre), with Ian Hunter (standing, left), Jim Douglas (sitting, left), Dan Mesrobian (standing, right) and Paul Gaudreau (sitting, right) work in Treasury Division.

FIVE-YEAR REVIEW

OPERATIONAL	1990-1991	1989-1990	1988-1989	1987-1988	1986-1987
TOTAL LOANS RECEIVABLE PORTFOLIO					
NUMBER	**61,475**	63,884	67,216	72,182	75,487
AMOUNT ($ MILLIONS)	**3,611.0**	3,852.8	4,182.3	4,701.6	4,955.9
UNDER FARM CREDIT ACT					
NUMBER OF LOANS APPROVED	**2,013**	2,371	1,472	2,674	4,311
AMOUNT OF LOANS APPROVED					
GROSS ($ MILLIONS)	**190.5**	214.5	136.1	333.8	610.1
NET ($ MILLIONS)	**176.9**	201.0	102.3	206.8	336.4
AVERAGE SIZE OF LOANS APPROVED - GROSS ($)	**94,633**	90,464	92,444	124,827	141,530
PERCENTAGE OF LOANS IN GOOD STANDING	**87.9**	86.5	84.5	81.7	80.5
PERCENTAGE OF TOTAL OWING IN GOOD STANDING	**79.6**	77.6	73.1	67.8	65.1
REAL PROPERTY HELD AT YEAR END					
NUMBER	**2,371**	1,864	1,485	911	476.
VALUE ($ MILLIONS)	**224.7**	178.3	135.6	66.2	53.8
UNDER FARM SYNDICATES CREDIT ACT					
NUMBER OF LOANS APPROVED	**118**	73	22	39	44
AMOUNT OF LOANS APPROVED ($ MILLIONS)	**3.2**	2.5	0.6	1.4	1.2

FINANCIAL	1990-1991	1989-1990	1988-1989	1987-1988	1986-1987
REVENUES AND EXPENSES ($ MILLIONS)					
NET INTEREST INCOME	**47.4**	30.3	(27.8)	(87.1)	(5.0)
NET PROVISION FOR LOAN LOSSES	**3.7**	3.2	(20.2)	394.0	98.3
OTHER INCOME	**35.4**	22.5	12.5	4.6	3.9
ADMINISTRATIVE EXPENSES	**52.5**	47.3	39.4	35.3	33.1
LARGE CORPORATIONS TAX	**6.2**	5.0	-	-	-
INCOME (LOSS) FOR THE YEAR	**20.4**	(2.7)	(34.6)	(511.8)	(132.5)
NON-ACCRUAL LOANS					
NUMBER	**4,333**	5,495	7,040	7,950	4,211
TOTAL OWING ($ MILLIONS)	**485.3**	641.4	808.2	1,056.7	659.9
REDUCTION OF INTEREST INCOME DUE TO NON-ACCRUAL ($ MILLIONS)	**21.6**	30.9	75.0	130.8	55.4
FINANCIAL POSITION ($ MILLIONS)					
TOTAL ASSETS	**3,810.4**	3,816.7	4,031.7	4,310.4	4,908.6
TOTAL LIABILITIES	**3,663.8**	3,890.6	4,702.9	4,947.0	5,033.0
EQUITY (DEFICIENCY) OF CANADA	**146.6**	(73.9)	(671.2)	(636.6)	(124.8)

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada and which have been consistently applied. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

The approach followed by the Corporation to estimate the allowance for loan losses, on a consistent basis with past years, includes a specific review of undersecured loans and a general estimate of probable losses inherent in the secured portion of the portfolio. The general allowance is prudential in nature, and provides for loan losses which have not been specifically identified.

As a result of loans going through the recovery process the amount of the allowance attributable to specific individual loans has declined from the March 31, 1990 level. However, the increased uncertainty facing Canadian agriculture at this time, arising from adverse conditions such as the failure of the GATT negotiations, and its probable negative impact on farmers' ability to repay and the value of the Corporation's security has, in management's judgement, necessitated the retention of the allowance at its book value as of March 31, 1991. Therefore, it is management's opinion that the year-end allowance at $232.7 million is the best estimate of probable losses on loans outstanding.

Other than an amount of $3.7 million, which was charged to operations to provide for probable loan losses on current year lending, no amount has been charged to or credited to operations with regard to the allowance for loan losses. The Board of Directors supports management's opinion that, in an environment of continuing, low agricultural export prices, particularly in the grain sector, and the recent failure of GATT negotiations, it would be imprudent to further reduce the allowance at this time.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations. In addition, the internal and external auditors have full and free access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The independent auditor, the Auditor General of Canada, is responsible for auditing the financial statements and for issuing his report thereon.

JAMES J. HEWITT

Chairman and
Chief Executive Officer

MAX PIERCE

Senior Vice-President,
Finance

AUDITOR'S REPORT

To the Minister of Agriculture

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1991 and the statements of operations and deficit and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

Except as explained in the following paragraph, I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

Loans of $3,378.3 million are stated net of an allowance for loan losses of $232.7 million. Although the Corporation has provided me with evidence and analyses in support of the inclusion of $136.1 million in the allowance, it was unable to provide adequate support for the balance of $96.6 million. As a consequence, I was unable to satisfy myself as to the appropriateness of this additional amount. Accordingly, I was unable to determine whether any adjustments might be necessary to the allowance for loan losses and consequentially to the provision for loan losses, the net income for the year and the deficit.

In my opinion, except for the effect of adjustments, if any, which I might have determined to be necessary had I been able to satisfy myself with respect to the appropriateness of the additional $96.6 million in the allowance for loan losses described in the preceding paragraph, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1991 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles. As required by the Financial Administration Act, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Farm Credit Act and the by-laws of the Corporation.

L. Denis Desautels

Ottawa, Canada
May 30, 1991

L. DENIS DESAUTELS f.c.a
Auditor General of Canada

FARM CREDIT CORPORATION

BALANCE SHEET

AS AT MARCH 31, 1991

	1991	1990
		(000's)
ASSETS		
CASH AND SHORT-TERM INVESTMENTS	**$ 182,076**	$ 48,104
ACCOUNTS RECEIVABLE	**13,327**	2,277
LOANS RECEIVABLE, NET OF ALLOWANCE FOR LOAN LOSSES OF $232,665 (1990 – $279,365) (NOTES 3 AND 4)	**3,378,346**	3,573,414
REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS (NOTE 5)	**224,711**	178,281
OFFICE EQUIPMENT AND LEASEHOLD IMPROVEMENTS	**5,452**	5,113
UNAMORTIZED DEBT DISCOUNT AND ISSUE EXPENSES	**6,470**	9,530
	$3,810,382	$3,816,719
LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**$ 12,240**	$ 16,466
SHORT-TERM NOTES	**306,544**	110,456
PROVISION FOR EMPLOYEE TERMINATION BENEFITS	**3,447**	3,154
LOANS PAYABLE (NOTE 6)	**3,341,587**	3,760,523
	3,663,818	3,890,599
EQUITY		
CONTRIBUTED CAPITAL (NOTE 8)	**1,018,333**	818,333
DEFICIT	**(871,769)**	(892,213)
	146,564	(73,880)
	$3,810,382	$3,816,719

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

APPROVED:

JAMES J. HEWITT
Chairman and
Chief Executive Officer

GEORGE KLOSLER
Director

STATEMENT OF OPERATIONS AND DEFICIT

FOR THE YEAR ENDED MARCH 31, 1991

	1991	1990
	(000's)	
INTEREST INCOME		
LOANS RECEIVABLE	**$ 370,928**	$ 386,347
SHORT-TERM INVESTMENTS	**19,860**	13,801
	390,788	400,148
INTEREST EXPENSE		
LOANS PAYABLE	**325,625**	356,545
SHORT-TERM NOTES	**17,772**	13,305
	343,397	369,850
NET INTEREST INCOME	**47,391**	30,298
PROVISION FOR LOAN LOSSES (NOTE 4)	**(3,684)**	(3,202)
LEASE AND OTHER REVENUE FROM REAL ESTATE, NET OF OPERATING EXPENSES OF $6,783 (1990 – $5,496)	**34,170**	20,779
OTHER INCOME	**1,284**	1,763
INCOME BEFORE NON-INTEREST EXPENSES	**79,161**	49,638
ADMINISTRATIVE EXPENSES	**52,544**	47,337
INCOME TAXES - LARGE CORPORATIONS TAX (NOTE 9)	**6,173**	4,990
NET INCOME (LOSS) FOR THE YEAR	**20,444**	(2,689)
DEFICIT AT BEGINNING OF THE YEAR	**(892,213)**	(889,524)
DEFICIT AT END OF THE YEAR	**$(871,769)**	$(892,213)

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

FARM CREDIT CORPORATION

STATEMENT OF CHANGES IN CASH POSITION

FOR THE YEAR ENDED MARCH 31, 1991

	1991	1990
	(000's)	
OPERATING ACTIVITIES		
NET INCOME (LOSS) FOR THE YEAR	**$ 20,444**	$ (2,689)
ITEMS NOT INVOLVING CASH		
PROVISION FOR LOAN LOSSES	**3,684**	3,202
CHANGE IN ACCRUED INTEREST RECEIVABLE	**20,286**	4,285
CHANGE IN ACCRUED INTEREST PAYABLE	**(13,405)**	(9,100)
OTHER	**(7,365)**	12,489
CASH PROVIDED BY OPERATING ACTIVITIES	**23,644**	8,187
INVESTING ACTIVITIES		
LOANS RECEIVABLE DISBURSED	**(184,530)**	(188,620)
LOANS RECEIVABLE REPAID	**248,511**	313,763
PROCEEDS FROM DISPOSAL OF REAL ESTATE	**60,687**	83,666
OTHER	**(4,897)**	3,689
CASH PROVIDED BY INVESTING ACTIVITIES	**119,771**	212,498
FINANCING ACTIVITIES		
LOANS FROM CANADA	**256,250**	256,550
LOANS REPAID TO CANADA	**(388,321)**	(998,669)
LOANS REPAID TO CAPITAL MARKETS	**(273,460)**	(112,543)
INCREASE IN CONTRIBUTED CAPITAL	**200,000**	600,000
CHANGE IN SHORT-TERM NOTES	**196,088**	41,187
CASH USED IN FINANCING ACTIVITIES	**(9,443)**	(213,475)
INCREASE IN CASH AND SHORT-TERM INVESTMENTS	**133,972**	7,210
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF THE YEAR	**48,104**	40,894
CASH AND SHORT-TERM INVESTMENTS AT END OF THE YEAR	**$ 182,076**	$ 48,104

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THE FINANCIAL STATEMENTS.

NOTES TO FINANCIAL STATEMENTS

1. THE CORPORATION

(a) Authority and objectives

Farm Credit Corporation ("the Corporation") was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The Corporation makes and administers farm loans under the authority of the Farm Credit Act and the Farm Syndicates Credit Act, and administers programs as requested by the Government of Canada ("the government").

The Corporation's role, as clarified in the Corporate Plan approved in 1988, is to provide mortgage credit and complementary financial services to Canadian farmers on a break-even basis and, when called upon by the government, to deliver specific government programs on a cost-recovery basis.

(b) Financial restructuring

The government has approved a financial restructuring for the Corporation which covers a four-year period ending March 31, 1992 and establishes operating policies and management guidelines within which the Corporation is to operate.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Interest income is recorded on the accrual basis until such time as management determines that a loan should be classified as non-accrual. A loan is classified as non-accrual when:

1 principal or interest is six months past due, unless the loan is well secured, or

2 when circumstances indicate doubt as to the ultimate collectibility of principal or interest.

When a loan is classified as non-accrual, uncollected interest recognized in the year is reversed against interest income and, where necessary, uncollected interest recognized in previous years is provided for in the allowance for loan losses.

Interest payments on non-accrual loans are recorded as interest income when received where it has been determined that the loan does not require a specific provision for loss; otherwise, they are credited to principal.

Non-accrual loans return to accrual status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Lease and other revenues from real estate are recorded when earned.

Loan fees and charges are recorded as other income when earned.

(b) Allowance for loan losses

The allowance for loan losses represents management's best estimate of probable losses on the loans outstanding at the end of the year. The allowance has a specific component which is based on the review of outstanding undersecured loans and a general component, which is prudential in nature, to provide for loan losses which have not yet been specifically identified.

The allowance is based on a periodic evaluation of the loan portfolio in which numerous factors are considered including future land values, commodity prices, federal and provincial governments' programs, and climatic conditions. Management has estimated the effect of these risks and uncertainties when determining the allowance for loan losses. However, future agricultural and economic conditions are not predictable with certainty and, therefore, actual loan losses may vary from management's estimate.

The government has agreed to reimburse the Corporation for concessions it will make to farmers during the next year as a result of its participation in the Farm Debt Review process. The type of concessions to be made through the process, and the extent to which they will reduce the Corporation's loan losses, are not presently known. They are, therefore, not included in establishing the allowance for loan losses.

Actual loan losses, write-downs of acquired real estate, and losses on the sale of real estate are charged to the allowance while recoveries are credited to the allowance. Adjustments of the allowance to the level regarded by management as being appropriate are applied to operations.

(c) Real estate acquired in settlement of loans

Real estate is recorded at the lower of the amount of the loan outstanding or the estimated net realizable value at the time of acquisition. Subsequent declines in estimated net realizable value are recorded in the year in which they occur.

(d) Farm Debt Review process

Amounts received on behalf of farmers for concessions granted by the Corporation under the Farm Debt Review process are applied as if they had been received directly from the farmers.

(e) Office equipment and leasehold improvements

Office equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of office equipment and leasehold improvements according to the following methods and rates:

	Methods	Rates
EQUIPMENT AND FURNITURE	DECLINING BALANCE	20%
COMPUTER EQUIPMENT AND SOFTWARE	STRAIGHT-LINE	20%
LEASEHOLD IMPROVEMENTS	STRAIGHT-LINE	LEASE TERM PLUS THE FIRST RENEWAL OPTION.

(f) Debt discount and issue expenses

Debt discount and issue expenses are amortized on a straight-line basis over the life of the debt and are included in interest expense on loans payable.

(g) Translation of foreign currencies

Loans and related interest payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are included with debt discount and issue expenses. These amounts are amortized on a straight-line basis and are charged to interest expense over the lives of the obligations.

(h) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to matching the employees' contributions for current service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

(i) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(j) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred tax benefits which have not been recorded and will only be recognized when there is virtual certainty that they will be realized.

3. LOANS RECEIVABLE

	Annual interest rate (%)	1991 (000's)	1990
LOANS TO FARMERS, SECURED BY MORTGAGES	5 - 16 3/4	**$3,416,781**	$3,627,405
LOANS TO FARM SYNDICATES, SECURED BY NOTES	7 - 14 5/8	**6,607**	5,118
LOANS RECEIVABLE FROM REAL ESTATE SALES, SECURED BY AGREEMENTS FOR SALE OR MORTGAGES	5 - 14 7/8	**35,470**	36,828
		3,458,858	3,669,351
ACCRUED INTEREST - CURRENT		**88,862**	113,245
- ARREARS		**63,291**	70,183
		3,611,011	3,852,779
LESS: ALLOWANCE FOR LOAN LOSSES		**232,665**	279,365
		$3,378,346	$3,573,414

At March 31, 1991, the Corporation had 4,333 loans representing $485 million of loans receivable classified as non-accrual (1990 - 5,495 representing $642 million). During the year, interest not recognized on non-accrual loans amounted to $22 million (1990 - $31 million). The accumulated interest not recognized on non-accrual loans outstanding at March 31, 1991 amounted to $82 million (1990 - $122 million).

4. ALLOWANCE FOR LOAN LOSSES

The summary is as follows:

	1991		1990
		(000's)	
BALANCE AT BEGINNING OF THE YEAR	**$279,365**		$350,000
WRITE-OFFS, NET OF RECOVERIES	**(50,384)**		(73,837)
PROVISION FOR LOAN LOSSES	**3,684**		3,202
BALANCE AT END OF THE YEAR	**$232,665**		$279,365
SPECIFIC ALLOWANCE	**$ 87,665**		$124,365
GENERAL ALLOWANCE	**145,000**		155,000
BALANCE AT END OF THE YEAR	**$232,665**		$279,365

5. REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS

The summary is as follows:

	1991		1990
		(000's)	
BALANCE AT BEGINNING OF THE YEAR	**$178,281**		$135,642
ACQUISITIONS	**110,316**		118,205
DISPOSALS	**(63,886)**		(75,566)
BALANCE AT END OF THE YEAR	**$224,711**		$178,281

Real estate represents farm property acquired in the process of administering loans receivable and must be disposed of within five years of acquisition or such further period as the Governor in Council may prescribe.

The Corporation has 2,371 properties (1990 - 1,864), of which 1,036 (1990 - 1,010) are saleable within the next year. Of these saleable properties, 555 (1990 - 650) may be eligible for lease renewal. The balance are leased for periods of up to four years.

6. LOANS PAYABLE

	Annual interest rate (%)	1991	1990
		(000's)	
LOANS FROM CANADA, SECURED BY NOTES			
FARM CREDIT ACT	6 - 13	**$2,309,233**	$2,442,104
FARM SYNDICATES CREDIT ACT	9 1/4 - 11	**4,536**	3,736
LOANS FROM CAPITAL MARKETS, SECURED BY NOTES			
FARM CREDIT ACT			
PAYABLE IN:			
U.S. DOLLARS (375,000,000)	9 - 10 1/2	**507,987**	591,447
SWISS FRANCS (100,000,000)	11	**59,666**	59,666
JAPANESE YEN (7,660,000,000)	9 1/4	**69,500**	69,500
CANADIAN DOLLARS	9 - 12 1/8	**305,000**	495,000
		3,255,922	3,661,453
ACCRUED INTEREST		**85,665**	99,070
		$3,341,587	$3,760,523

AMOUNTS DUE BY FISCAL YEAR ARE AS FOLLOWS:	1991	1990
1991	**$ -**	$ 506,854
1992	**408,816**	423,305
1993	**468,387**	446,037
1994	**585,510**	543,069
1995	**351,699**	372,948
1996	**314,414**	259,201
1997 TO 2005	**1,127,096**	1,110,039
	3,255,922	3,661,453
ACCRUED INTEREST	**85,665**	99,070
	$3,341,587	$3,760,523

As part of the financial restructuring, $200 million of loans from Canada (1990 - $600 million) was repaid during the year from the increase in contributed capital. The government decided that no interest would be payable on these loans throughout the year.

7. LIMITS ON BORROWING

The Farm Credit Act limits the aggregate amount outstanding of the principal borrowings by the Corporation pursuant to the Act to twenty-five times the contributed capital of the Corporation. At March 31, 1991, the Corporation's outstanding borrowings under this Act, comprising short-term notes of $304 million and loans payable of $3,256 million, were 3.49 times the contributed capital of $1,018 million (1990 - 4.60 times the contributed capital of $818 million).

The Farm Syndicates Credit Act limits the loans from Canada pursuant to the Act to $25 million. At March 31, 1991, the Corporation's loans from Canada under this Act were $5 million (1990 - $4 million).

8. CONTRIBUTED CAPITAL

The contributed capital of the Corporation represents the amount received from Canada under section 12 of the Farm Credit Act. The statutory limit was increased by $200 million in the current year to $1,025 million (1990 - $825 million).

As part of the financial restructuring, Canada increased its contributed capital by $200 million. The Corporation has applied these amounts to the repayment of loans from Canada.

9. INCOME TAXES

(a) Timing differences of approximately $297 million are available to the Corporation as at March 31, 1991. These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for loan losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes which has not been recognized in the financial statements amounts to $493 million and expires on the dates indicated:

	(000's)
March 31, 1996	$ 13,000
1997	480,000
	$493,000

During the current year the Corporation will incur no income tax expense, other than the large corporations tax, due to the utilization of $321 million in loss carry-forwards.

(b) Income taxes payable by the Corporation relate to the large corporations tax, which may be offset against any current or future surtaxes payable. The Corporation has no surtax currently payable.

10. COMMITMENTS TO FARMERS

As at March 31, 1991, loans to farmers approved but not disbursed amounted to $47 million (1990 - $47 million). These loans were approved at rates from 11.625 per cent to 12.25 per cent. It is expected that the majority of these loans will be disbursed within the six-month period ending September 30, 1991.

11. OPERATING LEASES

Future minimum payments by fiscal year on operating leases for premises, with initial non-cancellable lease terms in excess of one year, are as follows:

	(000's)
1992	$ 3,206
1993	2,872
1994	2,094
1995	1,864
1996	701
1997 TO 2000	450
	$11,187

These leases generally provide for the payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

12. GOVERNMENT PROGRAMS

Farm Debt Review process

Subject to annual parliamentary appropriation, the Minister of Agriculture has been authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the Farm Debt Review Act. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments, or the Corporation proceeds with recovery action.

The government has allocated funds for concessions to be granted over the period ending March 31, 1992. Since the inception of the Farm Debt Review process, the Corporation has offered $167 million in concessions and billed $121 million to the government of which $45 million was billed in the current year and $76 million in prior years. The committed difference of $46 million will be due and received over the next five years as farmers meet their commitments and thereby realize the benefits of the concessions.

13. COMPARATIVE FIGURES

Certain 1990 comparative figures have been reclassified to reflect the presentation adopted in 1991.

CORPORATE DIRECTORY

MEMBERS OF THE BOARD

The Board of the Corporation has seven members appointed by the Governor in Council. The Chairman and Vice-Chairman of the Board are also officers of the Corporation. The Chairman is the Chief Executive Officer and, as such, directs and supervises the operations of the Corporation.

JAMES J. HEWITT*, FCMA
Chairman and
Chief Executive Officer

C. GERALD PENNEY, CA
Vice-Chairman and Chief
Operating Officer

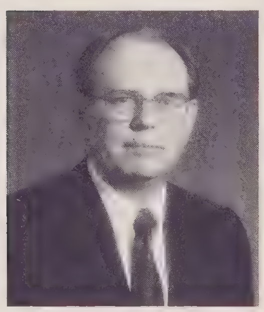
JEANNINE BOURQUE
Beef and hog producer,
Quebec

JUDY LLOYD*, CMA
Certified Management
Accountant, Alberta

GEORGE KLOSLER*
Tobacco, grain, ginseng
and hog producer, Ontario

Mr. John McKenna, Prince Edward Island, resigned as Member of the Board in August 1990. Mr. Fred McCain Jr., New Brunswick, was appointed to the Board to fill the vacancy.

** Member of the Audit Committee*



FRED McCAIN JR.*, CA
Chartered Accountant,
New Brunswick

DON SWENSON
Grain and forage seed
producer, Saskatchewan

MEMBERS OF THE ADVISORY COMMITTEE

The Advisory Committee is appointed by the Minister of Agriculture to advise him and the Corporation on lending policy matters. Most members are farmers or operators of agricultural businesses.

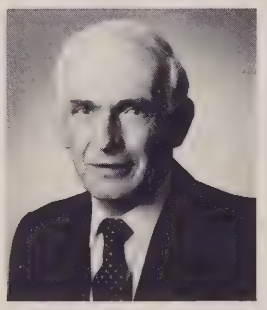
GARNET RICKARD, Chairman
Ontario

LEON BREMNER
New Brunswick

JEANNINE CARON-GIASSON
Quebec

JACK CUMMING
Ontario

J. HARVEY GJESDAL
Saskatchewan



DON KNOERR
British Columbia

EDWARD MAZER
Manitoba

KEITH BARRETT
Prince Edward Island

WILLIAM A. VERHAGEN
Alberta

CHAIRMEN OF APPEAL BOARDS

Appeal Boards, composed of farmers of proven ability and judgement, are established in each province to hear appeals from farmers who are dissatisfied with the Corporation's decision on their loan applications. During the year, 21 farmers went to Appeal Boards. Based on their recommendations, FCC modified its decision on four applications.

E.T. (TED) OSBORN
British Columbia

GEORGE TEMPLETON
Alberta

DENNIS C. BOLDT
Saskatchewan

KENNETH LYLE YOUNG
Manitoba

EDWARD J. MAILLOUX
Ontario

ROBERT BROCHU
Quebec

W. BURRIS COBURN
New Brunswick

THOMAS MEREDITH
Nova Scotia

WILBERT MACKENZIE
Prince Edward Island

DENNIS GALWAY
Newfoundland

SENIOR EXECUTIVES

JAMES J. HEWITT
Chairman and
Chief Executive Officer

C. GERALD PENNEY
Vice-Chairman and
Chief Operating Officer

THOMAS S. BARTON
Senior Vice-President,
General Counsel and
Corporate Secretary

BRIAN STROM
Senior Vice-President,
Operations

MAX PIERCE
Senior Vice-President,
Finance

TERRY KREMENIUK
Vice-President,
Research and Planning

SUZANNE DORÉ
Vice-President, Administration

PIERRE LAFLAMME
Vice-President,
Corporate Audit

DAVE FRASER
Vice-President, Lending

MADONNA BAILEY
Vice-President and Treasurer

COLIN M. BROOKER
Vice-President and Controller

JANICE WHITTERS
Executive Assistant to the
Vice-Chairman and Assistant
Corporate Secretary

DESIGN: *Maruska Studios*

PHOTOGRAPHY: *Dan Maruska, Don Langford, Ross Davidson Pilon, Steve Homer, Studio A/V, Jay Squelch, Q-Photo, McMaster Photographers, King Studio. Special thanks to staff who contributed photos for this report (p. 8, 9, 20).*

PRINTING: *The Runge Press Limited, using recycled paper and vegetable-based inks.*

REGIONAL OFFICES	DISTRICT OFFICES	FIELD OFFICES
ALBERTA/BRITISH COLUMBIA* GEORGE JONES Regional Vice-President 101 St. Building Suite 1550 10250-101st Street Edmonton, Alta. T5J 3P4 (403) 495-4488	Grande Prairie, Kelowna, Lacombe, Lethbridge, Vegreville, Westlock	Abbotsford, Athabasca, Barrhead, Brooks, Calgary, Camrose, Dawson Creek, Drumheller, Edmonton, Evansburg, Fairview, Falher, Hanna, Medicine Hat, Olds, Peace River, Stettler, St. Paul, Vermilion, Wainwright, Wetaskiwin
**Yukon Territory is served through the Edmonton Office*		
SASKATCHEWAN RUSS HOLM Regional Vice-President Suite 110 2401 Saskatchewan Drive Regina, S4P 4H9 (306) 780-5610	North Battleford, Prince Albert, Regina, Saskatoon, Swift Current, Yorkton	Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake, Moose Jaw, Rosetown, Tisdale, Weyburn, Wynyard
MANITOBA MARSHALL STACHNIAK Regional Vice-President 400-5 Donald St. Winnipeg, R3L 2T4 (204) 983-4039	Brandon, Portage la Prairie, Winnipeg	Arborg, Carman, Dauphin, Killarney, Morden, Neepawa, Virden
ONTARIO BOB AUMELL Regional Vice-President Unit 201 450 Speedvale Ave. West Guelph, N1H 7G7 (519) 821-1330	Chatham, Guelph, Lindsay, Nepean, Walkerton, Woodstock	Barrie, Campbellford, Cornwall, Essex, Goderich, Kingston, Lambeth, Listowel, New Liskeard, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Wyoming
QUEBEC JACQUES DORAN Regional Vice-President Édifice Champlain Suite 2000 2700 Laurier Blvd., Box 3600 Ste-Foy, G1V 4C7 (418) 648-3993	Ste-Foy, St-Hyacinthe, Sherbrooke	Alma, Arthabaska, Drummondville, Gatineau, Granby, Joliette, Rimouski, Roberval, St-Georges de Beauce, St-Jean, St-Jérôme, Trois-Rivières, Valleyfield
ATLANTIC JOHN VAN ABBEMA Regional Vice-President Suite 230 1133 St. George Blvd. Moncton, N.B., E1E 4E1 (506) 851-6595	Charlottetown, Moncton	Fredericton, Grand Falls, Kentville, St. John's, Summerside, Sussex, Truro, Woodstock

1991-1996 OBJECTIVES

In determining the direction the Farm Credit Corporation should take in the next five years, twelve strategic objectives were established. Each objective falls into one of five broad management areas.

MANDATE CHANGE

The Corporation needs legislative change to expand its market and product base to meet borrowers' increasingly sophisticated requirements and to have the necessary flexibility to adjust quickly to changing market conditions.

- *Develop a legislative proposal for a more flexible Farm Credit Act.*

OPERATIONAL EFFECTIVENESS

Farm Credit Corporation will continue to meet the objectives set out in the 1988 financial restructuring exercise as well as strive to reach annual performance targets to be financially and operationally effective.

- *Optimize corporate performance.*
- *Achieve financial viability.*
- *Develop systems for performance standards and measurement.*
- *Enhance the land management capability.*

Credit Advisor Becky Niessen confering with Gregg Zelinski, grain producer from Whishart, Saskatchewan.

BUSINESS DEVELOPMENT

Meeting the needs of the FCC's clients through exemplary service and quality credit products will be key to improving the Corporation's loan portfolio.

- *Strengthen the Corporation's client service orientation.*
- *Diversify the existing product line.*
- *Diversify the existing client base.*
- *Determine, change and communicate the corporate image.*

FCC STAFF

Recognizing staff as FCC's most important resource, a solid effort to attract and maintain a progressive workforce with the appropriate skill profile is vital.

- *Manage the human resource profile to meet future needs.*
- *Enhance staff development.*

MANAGEMENT INFORMATION SYSTEMS

The rapidly changing management information requirements of the financial and mortgage services sector requires FCC to manage information technology change and, at the same time, maintain a high degree of personalized service to its clients.

- *Maintain a high degree of technological advancement and management within FCC.*


Investing in good business . . . Canadian Agriculture
Farm Credit Corporation
Canada
Société du crédit agricole
Canada
Canadä

Farm Credit Corporation

Annual Report 1991-1992

Mission statement

"To provide the Canadian farmer with a reliable source of long-term credit and personalized counselling services."

Head office address
Farm Credit Corporation
434 Queen Street
Ottawa, Ontario
K1P 6J9

The Honourable
Bill McKnight, P.C., M.P.
Minister of Agriculture
Room 401, Confederation Building
House of Commons
Ottawa, Ontario
KIA 0A6

The Honourable
Gilles Loiselle, P.C., M.P.
President of the Treasury Board
Room 807, Confederation Building
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Ministers:

On behalf of the Board of Directors, I am pleased to submit Farm Credit Corporation's (FCC) annual report for the fiscal year ended March 31, 1992.

The report includes the financial statements and the auditor's report, in accordance with the Financial Administration Act.

The Corporation continues to make progress. Increased loan activity and a decline in the number of accounts in arrears have resulted in FCC recording an operating surplus for a second consecutive year. I am pleased to report that FCC has met or exceeded virtually all its performance objectives for the year.

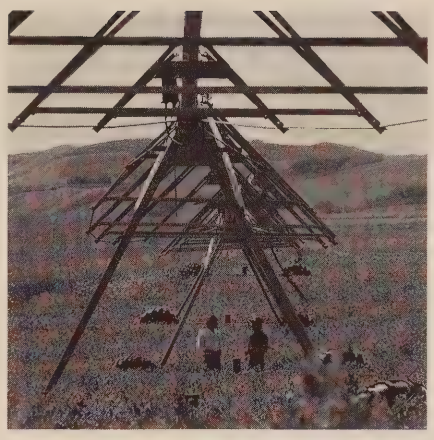
Yours sincerely,

JAMES J. HEWITT
Chairman and Chief Executive Officer

CONTENTS

CORPORATE PROFILE

The mandate of the Farm Credit Corporation (FCC) is to make, administer and supervise farm loans, and to carry out such other duties and functions as may be required by the Governor in Council. A Crown corporation reporting to Parliament through the Minister of Agriculture, FCC was established and given its mandate under the authority of the Farm Credit Act (FCA) in 1959.



GORDON DAY, VEGETABLE AND GRAIN GROWER OF COCHIN, SASKATCHEWAN, WITH CREDIT ADVISOR STEVEN SWALM.

FCC provides mortgage credit and complementary financial services to Canadian farmers on a break-even basis and, when called upon by government, delivers specific programs on a cost-recovery basis. In this role, FCC is an alternative source of competitively priced credit to farmers who have significant potential for commercial viability. FCC's staff offers counselling services in farm planning and financial management.

The Corporation also makes and administers loans under the Farm Syndicates Credit Act (FSCA), and works with the Farm Debt Review Boards (FDRB) to assist farmers in resolving their financial difficulties.

FCC's head office is currently located in Ottawa, but will be moved to Regina by September 1992. The Corporation's staff includes 727 permanent and 77 term employees. Its services are offered through six regional offices as well as 100 district and field offices across Canada.

We at Farm Credit Corporation, along with other Canadians, wondered at the rapidity of the political and economic changes that took place in the past year. The reunification of Germany, the disintegration of the Soviet Union, the ongoing General Agreement on Tariffs and Trade (GATT) negotiations, and the fast-approaching economic union of Europe are changes that will have a major impact on the way Canadians do business in the world marketplace.

While the effects of business slowdown and high unemployment are still being felt in Canada, a few signals indicate the country is taking its first steps towards economic recovery. Governments at all levels are recognizing the necessity to control spending. The Canadian dollar is enjoying relative stability. Interest rates, considerably lower than a year ago, may decline even further. Inflation for 1992-1993 is forecasted to be in the two per cent range. These signals provide an opportunity for Canadian agriculture and the agri-food business to compete effectively on the world market. Canada's success will depend on its ability to produce the best product at a competitive price.

As a lender to the Canadian agricultural community, FCC shares the same opportunity and responsibility. The Corporation has an ongoing commitment to improve its products and services, and to work in partnership with Canadian farmers.

Operational highlights

This fiscal year, FCC's lending volume increased by 86 per cent, with $335 million lent to farmers compared to $180 million in 1990-1991. The improvement in interest rates provided farmers with better opportunities to purchase land, pursue expansion programs, as well as refinance and consolidate debts at reasonable rates. FCC's continued emphasis on client service and a well-planned marketing program also played a role in achieving the increased lending volume.

The Corporation realized a net income of $22 million after recording estimated relocation expenses, compared to $21 million in 1990-1991.

Arrears declined to $103 million at year end compared to $133 million in the previous year, an improvement of 23 per cent. The reduction of arrears and non-accrual loans results in a better quality loan portfolio. Fewer losses translate into less pressure on FCC's interest margins and therefore enable the Corporation to maintain attractive interest rates for its clients.

Allowance for loan losses

The Corporation charged a net amount of $60 million for write-offs and declines in real estate value to the allowance for loan losses during the fiscal year. Due to an overall reduction in the level of arrears, the Corporation was also able to reduce the allowance by a further $13 million this year. At year end, the allowance as shown on the financial statements totalled $160 million. It is management's opinion that this amount is a reasonable reserve against probable losses in our present loan portfolio.

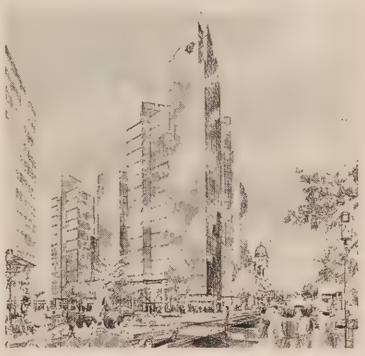
Property management

FCC acquired 658 properties this fiscal year compared to 1,003 in 1990-1991. Most of the properties held by FCC have been leased back to the former owner through the Equity-Building Lease Program. This program, which allows clients to lease the land back and accumulate equity during the term of the lease, is offered to farmers in financial difficulty who voluntarily transfer their property to the Corporation. It is hoped that, at the expiry of the lease, farmers will be in a position to exercise their option and repurchase the land.

In 1991-1992, further stability was added to farm operations by the implementation of the Gross Revenue Insurance Plan (GRIP) and the Net Income Stabilization Account (NISA). These government support programs are a positive factor in making a decision to grant agricultural credit. While these programs are undergoing some refinements, the stability they provide is recognized by lenders as an improvement over the previous ad hoc assistance programs.

HEAD OFFICE RELOCATION

In September 1991, the Minister of Agriculture announced the relocation of FCC's head office to Regina, Saskatchewan. This decision is part of the federal government's decentralization program, and reflects the government's commitment to bring federal institutions and agencies closer to the people they serve. The head office will be located in the Hamilton Centre in downtown Regina, and will be in full operation by September 1992. The estimated cost of the move has been reflected in the 1991-1992 financial statements, as generally accepted accounting principles require that such costs be included in the fiscal year in which the decision is made. The charge against operations in the amount of $13 million is shown as a separate item on the financial statements.



HEAD OFFICE
REGINA, SASKATCHEWAN

While the move to Regina has caused considerable disruption in operations and loss of staff, it provides the Corporation with the opportunity to examine in detail its structure, systems and resources, with the goal of improving its effectiveness and efficiency.

The relocation will result in the loss of many of our head office employees who, for personal reasons, are unable to make the move. I would be remiss if I did not express our appreciation for their dedicated service over the years. On behalf of the Board of Directors and management, I wish them every success in their future endeavours.

THE FUTURE

In response to the federal government's policy review on farm finance, the Corporation has been developing proposals for legislative change to the Farm Credit Act, with the objective of providing financing products and services that will enable Canadian farmers to meet the challenges of global competition. New legislation is expected to be considered during the 1992 legislative session.

In my opening remarks, I commented on the rapidity of change taking place in countries and economies around the globe. As an exporting nation, Canada must be able to compete with all other countries for markets if we are to maintain our standard of living. Canada as a country and all Canadians, regardless of individual occupations, will therefore have to adapt to these rapidly changing times. In agriculture the keys to future viability will be the ability to diversify production and to add value to primary products by taking advantage of new technology and market opportunities. These changes will only come with the commitment of industry, governments, and individuals. Farm Credit Corporation intends to play its role by providing effective long-term financial products and related services to Canadian farmers.

Jim Hewitt

JAMES J. HEWITT
Chairman and Chief Executive Officer

HIGHLIGHTS

TOTAL NUMBER OF LOANS APPROVED

FCA and FSCA

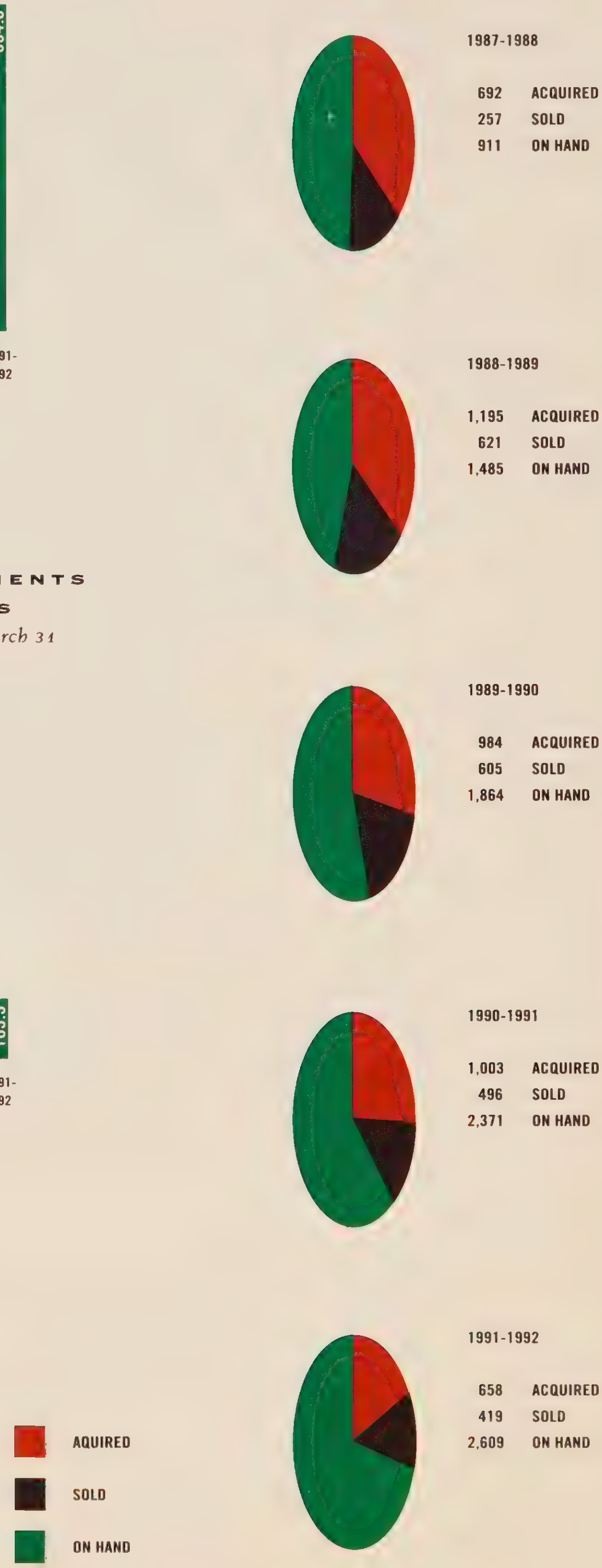
NET AMOUNT OF LOANS APPROVED

FCA and FSCA

($ millions)

ADMINISTRATION OF PROPERTIES BY FISCAL YEAR

(number)



ACCOUNTS IN GOOD STANDING

(Percentage of total portfolio)

LOAN PAYMENTS IN ARREARS

($ millions) as at March 31

OPERATIONAL	1991-1992	1990-1991	1989-1990	1988-1989	1987-1988
TOTAL LOANS RECEIVABLE PORTFOLIO					
NUMBER	**59,845**	61,475	63,884	67,216	72,182
AMOUNT ($ MILLIONS)	**3,500.6**	3,611.0	3,852.8	4,182.3	4,701.6
UNDER FARM CREDIT ACT					
NUMBER OF LOANS APPROVED	**3,007**	2,013	2,371	1,472	2,674
AMOUNT OF LOANS APPROVED					
GROSS ($ MILLIONS)	**358.3**	190.5	214.5	136.1	333.8
NET ($ MILLIONS)	**327.1**	176.9	201.0	102.3	206.8
AVERAGE SIZE OF LOANS APPROVED - GROSS ($)	**119,148**	94,633	90,464	92,444	124,827
PERCENTAGE OF LOANS IN GOOD STANDING	**89.2**	87.9	86.5	84.5	81.7
PERCENTAGE OF TOTAL OWING IN GOOD STANDING	**82.1**	79.6	77.6	73.1	67.8
REAL PROPERTY HELD AT YEAR END					
NUMBER	**2,609**	2,371	1,864	1,485	911
VALUE ($ MILLIONS)	**222.6**	224.7	178.3	135.6	66.2
UNDER FARM SYNDICATES CREDIT ACT					
NUMBER OF LOANS APPROVED	**237**	118	73	22	39
AMOUNT OF LOANS APPROVED ($ MILLIONS)	**7.5**	3.2	2.5	0.6	1.4

FINANCIAL	1991-1992	1990-1991	1989-1990	1988-1989	1987-1988
REVENUES AND EXPENSES ($ MILLIONS)					
NET INTEREST INCOME	**46.4**	47.4	30.3	(27.8)	(87.1)
NET PROVISION (RECOVERY OF PROVISION) FOR LOAN LOSSES	**(12.8)**	3.7	3.2	(20.2)	394.0
LEASE REVENUE AND OTHER INCOME	**37.4**	35.4	22.5	12.5	4.6
ADMINISTRATIVE EXPENSES	**55.7**	52.5	47.3	39.4	35.3
LARGE CORPORATIONS TAX	**6.0**	6.2	5.0	-	-
INCOME (LOSS) FOR THE YEAR	**21.6**	20.4	(2.7)	(34.6)	(511.8)
NON-ACCRUAL LOANS					
NUMBER	**4,209**	4,333	5,495	7,040	7,950
TOTAL OWING ($ MILLIONS)	**445.0**	485.3	641.4	808.2	1,056.7
REDUCTION OF INTEREST INCOME DUE TO NON-ACCRUAL ($ MILLIONS)	**21.3**	21.6	30.9	75.0	130.8
FINANCIAL POSITION ($ MILLIONS)					
TOTAL ASSETS	**3,688.4**	3,810.4	3,816.7	4,031.7	4,310.4
TOTAL LIABILITIES	**3,420.3**	3,663.8	3,890.6	4,702.9	4,947.0
EQUITY (DEFICIENCY) OF CANADA	**268.1**	146.6	(73.9)	(671.2)	(636.6)

During the 1991-1992 fiscal year, the major factors influencing FCC's operating environment were the uncertainty surrounding the GATT negotiations, the performance of the Canadian economy, the recommendations of the government's agricultural policy review, the implementation of new income support programs, the declining farmland values, the increasing awareness of the environment and the rapid change of information technology.

The GATT talks continued throughout the year and have yet to be finalized. As the United States/European Economic Community trade war continued, world grain prices remained historically low. Prairie grain farmers continued to experience low revenues despite generous yields. Realized net farm income dropped to approximately $3.2 billion in 1991, the lowest level since 1985. This factor had a direct impact on the performance of FCC's clients. Although arrears levels continued to drop, clients in Western Canada still account for 86 per cent of the Corporation's arrears. Farmers who are dependent on the grain economy have had more difficulty than other clients in recovering from their debt situations. In particular, the Saskatchewan region carries 62 per cent of FCC's arrears, while representing only 31 per cent of the portfolio.

Even though the Canadian economy experienced minimal progress in 1991-1992, inflation dropped significantly, as did interest rates. In the fourth quarter, the prime rate reached 7.5 per cent, its lowest level in 15 years. Farmers took advantage of the low rates, as the Corporation's increased lending volume demonstrates.

The agricultural policy review conducted by the Minister of Agriculture delivered several recommendations in July 1991 which affect FCC. The most significant is the recommendation to revise the Farm Credit Act, giving FCC greater flexibility to respond to the needs of the farm community.

In addition to the two income support programs the federal government implemented during 1991-1992 (GRIP and NISA), ad hoc assistance of $800 million was paid to Canadian grain farmers in early 1992. These programs and payments provided stability to farm revenues, a factor which, along with declining interest rates, helped FCC exceed its budgeted lending volume.

The value of farmland in Canada declined for the second six-month period in a row between July 1991 and January 1992. The national decline of about two per cent, which affected primarily the Prairies, reflected the depressed economic situation caused by low grain prices. FCC has significant land holdings in Western Canada where three-year leases are frequently arranged through the Farm Debt Review Boards' settlement process. The depressed market for land and the debt settlement process have made it more difficult for FCC to reduce its land inventories, particularly in Saskatchewan.

The agriculture industry experienced shifts in environmental awareness along with other sectors of Canadian business. Increased emphasis on soil and water management focused more attention on landholders' responsibility for environmental protection and sustainability. Farmers and lenders who hold title to land have had to keep abreast of any changes to environmental legislation which could have an impact on their operations.

Canadian farm operations have become more technologically advanced over the past decade. FCC has also been able to enhance its information management capability during 1991-1992, evolving from manual forms to computerized loan applications. Many credit advisors take the portable computer directly to the farm to provide clients with better information for decision making. Increased demand for more sophisticated technology has driven the need for credit advisors to acquire a broader range of skills.

The issues that Farm Credit Corporation faced in 1991-1992 will also need to be addressed in the coming fiscal year. Even though farm cash receipts and net income are expected to improve in the next two years, some fundamental long-term concerns will need to be managed. Resolution of the GATT talks may affect both grain and supply-managed sectors. New legislation for the Corporation will change its way of doing business, and the greater use of technology will drive much of the evolution in agricultural finance.

FCC's objectives were summarized into five broad areas. As at March 31, 1992, FCC had achieved the following results in each of these areas.

1 Mandate Change

• Develop a legislative proposal for a more flexible Farm Credit Act.

The Minister of Agriculture and FCC's Executive supported the recommendations of the Task Force on Farm Finance and Management to make FCC's legislation more flexible. Consequently, the Corporation has been developing proposals to obtain legislative changes in the Farm Credit Act. These changes are expected to be tabled in the House of Commons in the new fiscal year.

2 Operational Effectiveness

• Optimize corporate performance.
• Achieve financial viability.
• Develop systems for performance standards and measurement.
• Enhance the land management capability.

The Corporation's lending volume well exceeded 1991-1992 targets. For the second consecutive year, FCC has achieved an operating surplus, and has thereby covered its costs as set out in the Corporation's 1988 Recovery Plan.

FCC's Treasury Division successfully launched a Medium and Long-Term Note Program in March 1992. The program is expected to raise $50 to $100 million per year to fund lending initiatives over the course of future fiscal periods.

The Corporation implemented an internal transfer pricing system that was developed last year, which allows the production of regional contribution statements. This new capacity to measure performance based on income and expense will help regions and head office divisions to develop better plans and make more informed decisions.

A study on FCC's land management capability was completed during the last fiscal year.

3 Business Development

• Strengthen the Corporation's client service orientation.
• Diversify the existing product line.
• Diversify the existing client base.
• Determine, change and communicate the corporate image.

The Corporation developed standards of performance for internal and external client service. These standards will be implemented during the coming year, and are expected to reinforce the excellent service FCC currently provides.

Three and five-year closed mortgages were launched in September 1991. The Business Development Committee, formed last year, continues to explore other possibilities to enhance the Corporation's product line.

A relationship marketing program called "Business Contact" was tested with over 1,000 clients in the Alberta/British Columbia and Quebec regions. The purpose of the program is to develop loan business and referrals by establishing and maintaining regular contact with existing and potential clients. The response exceeded FCC's expectations; consequently, the program will be expanded nationally in 1992-1993.

FCC introduced new corporate colours to strengthen the business image across the country. A new marketing logo was also developed during the past year.

4 FCC Staff

• Manage the human resource profile to meet future needs.
• Enhance staff development.

FCC completed delivery of national client service training in all regions and in most divisions of head office.

To encourage the delivery of exemplary service to clients, FCC initiated work on a national service recognition program. The cornerstones of this program will be direct customer and staff involvement, coupled with simplicity and flexibility.

The Corporation continued to emphasize staff development through technical, technological and general management training. Project management training was applied to systems development methodologies, and workshops were developed for delivery in the next fiscal year.

As part of its revised orientation program, FCC produced a corporate video to familiarize new staff with FCC's business, culture and service objectives. Staff involvement in issues such as health and safety, and environmental protection initiatives has continued throughout the period.

SIMON AND RICK WILLEMESE, CASH CROP PRODUCERS OF PARKHILL, ONTARIO, WITH CREDIT ADVISOR HOWARD SPARKES.

5 MANAGEMENT INFORMATION SYSTEMS

In 1991-1992, FCC's drive to expand its service delivery options and its information analysis capability led to the development of a long-term Information Strategic Plan. Its implementation is positioning FCC to optimize the use of available technology, and to effect a more rapid and smooth transition to the information environment of the 90's.

• Maintain a high degree of technological advancement and management within FCC.

A major component of this strategy is the new loans management system project which will provide clients and staff with improved information as well as a more efficient and flexible service.

Under the plan, FCC is establishing an effective framework for the use of technical and human resources to facilitate the development of adaptive systems and applications.

Initiatives in the areas of improved telecommunications, expanded use of electronic data interchange, and the introduction of electronic mail facilities offering wider access and networking, allowed FCC to progress in its commitment to improve internal communications, reduce paper burden and related costs, and contribute to environmental protection through technology.

FCC has now provided all field staff with computers to process loan applications and conduct farm appraisals. The current Financial Analysis System and Land Sales System softwares continue to be improved and to provide enhanced support to credit advisors.

DENIS AND RAYMOND FRÉCHETTE, DAIRY PRODUCERS OF ST-PAUL DE CHESTER, QUEBEC.

LENDING SUMMARY

FCC loans may be obtained to purchase farmland, make permanent improvements, buy breeding stock or farm equipment, consolidate and restructure debts, or for any purpose that will facilitate the development and maintenance of an efficient farm operation.

The Corporation approved 3,007 loans this year under the Farm Credit Act (FCA) and 237 loans under the Farm Syndicates Credit Act (FSCA). This 52 per cent increase over the total number of loans approved last year can be attributed to a general softening of interest rates, FCC's long-term fixed interest rates, improved client service and a productive marketing campaign.

The net loan amount approved under FCA was $327 million, up 85 per cent from the $177 million approved last year. Under the FSCA, $8 million were approved compared to $3 million in 1990-1991. Land purchase (27 per cent), as well as refinancing and debt consolidation (50 per cent), continued to account for most of the lending volume.

In addition to the three-year and the five-year closed mortgages which were introduced this year, FCC continues to offer loans with fixed interest terms of 5, 10, 15 and up to 30 years. FCC offers also a Shared Risk Mortgage (SRM), with a six-year term, under which the client and FCC share the costs or benefits of fluctuating interest rates.

In 1991-1992, 93 per cent of FCC clients with maturing loans who were offered extensions chose to renew with the Corporation. This large proportion confirms that FCC is offering competitive terms and is providing a high degree of service to its clientele. In a continuing effort to offer its clients more flexibility in planning their finances, the Corporation introduced an "early mortgage extension option" this year. This option enables clients, who are so inclined, to effect an early renewal of their mortgages, thus permitting them to reduce interest rate risk.

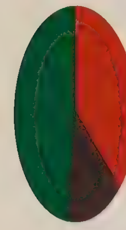
FARM FINANCIAL MANAGEMENT

Extensive counselling by credit advisors before, during and after loan application and approval is an important element of FCC's service to farmers. It helps farmers explore alternatives, develop realistic plans and make more informed business decisions. This counselling not only improves farmers' ability to succeed, but it also results in better loans for FCC.

Market testing of an enhanced advisory services product called Focus was completed this past year. FCC is now determining the extent of future use of this product.

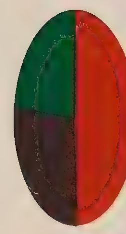
Administration of properties by fiscal year

(number)



1987-1988

342	LEASE BACK AGREEMENTS
135	OTHER LEASES
434	PROPERTIES FOR SALE



1988-1989

734	LEASE BACK AGREEMENTS
405	OTHER LEASES
346	PROPERTIES FOR SALE

1989-1990

1,128	LEASE BACK AGREEMENTS
66	OTHER LEASES
670	PROPERTIES FOR SALE

1990-1991

1,650	LEASE BACK AGREEMENTS
140	OTHER LEASES
581	PROPERTIES FOR SALE

1991-1992

2,022	LEASE BACK AGREEMENTS
125	OTHER LEASES
462	PROPERTIES FOR SALE

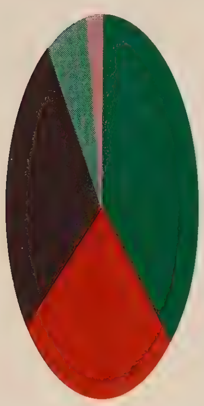
LEASE BACK AGREEMENTS TO FORMER OWNERS

OTHER LEASES

PROPERTIES FOR SALE

Farm debt review boards

Concessions granted in 1991-1992: $42 million



LEASE BACK TO ORIGINAL OWNER 37.7%

FORGIVENESS OF ARREARS 26.9%

REDUCTION OF INTEREST RATE 26.1%

RETENTION OF BUILDING SITE 6.6%

OTHER 2.7%

Arrears

Arrears reduction was again a high priority in 1991-1992. At the end of the fiscal year, arrears totalled $103 million, representing a 23 per cent reduction from the previous year. The pace of arrears reduction has been somewhat slowed due to poor grain prices. A great deal of time and effort is spent by the Corporation's field staff to deal with clients in arrears on an individual basis and in an equitable manner. The emphasis is to analyze all reasonable alternatives and, where possible, find solutions to difficult situations.

Farm Debt Review Boards

When clients are substantially in arrears with their loan payments, they are encouraged to seek a solution with the aid of the Farm Debt Review Boards. As part of this process, FCC has access to a Farm Debt Review Fund to help settle accounts without increasing costs to future clients. The Boards received 2,489 requests from FCC clients to review their financial affairs in 1991-1992. As a result, the Corporation approved 2,067 concessions representing $42 million.

Assessing the need for concessions has been a major challenge for FCC staff. With 89 per cent of its accounts in good standing, the Corporation must ensure that concessions for resolving the financial problems of some clients are fair to other clients who keep their accounts up to date.

Property management

When reviewing the various alternatives to addressing a client's arrears problem, a voluntary transfer of the property may be the only solution left. In most cases, the Corporation offers a lease back of the property to former owners so that they can continue their farm operations. During 1991-1992, FCC acquired 658 properties, compared with 1,003 the year before. Properties sold during the year totalled 419 and properties on hand at year end were 2,609.

The Equity-Building Lease Program continued to be offered to clients transferring their property to the Corporation and to those whose existing leases expired in 1991 or 1992. FCC presently holds 1,080 equity-building leases, and deposits by farmers in the Equity-Building Fund exceeded $4 million at March 31, 1992.

Improving FCC's operations

The Financial Administration Act requires that Crown corporations undergo a special examination every five years. During the past fiscal year, the Auditor General of Canada reported on the results of FCC's first special examination. With the completion of the examination, five projects under the general heading of Lending Control Framework have been undertaken. Each of these projects will look at FCC's activities from the client's perspective as well as the business perspective. The five quality control projects are: credit risk philosophy and risk assessment; credit information; accountability framework; delegation of authority; and reporting on performance. These projects will bring about enhancements to FCC's existing methods and processes, resulting in better control of its lending activities and better client service.

FINANCIAL ANALYSIS

The Corporation's financial position was strengthened during 1991-1992 by an increase in equity of $122 million. This improvement was achieved mainly through the government's capital contribution of $100 million, which was used to reduce long-term debt by a corresponding amount. As a result, the debt-to-equity ratio improved from 25:1 at the end of 1990-1991 to 13:1 at March 31, 1992. This capital injection was the last installment of the four-year financial restructuring plan agreed to by the government in 1988. Further financial restructuring to ensure long-term self-sufficiency for the Corporation is currently under study and discussion.

EDWIN AND MIRIAM LOESSIN, GRAIN AND BEEF PRODUCERS OF RADISSON, SASKATCHEWAN, WITH CREDIT ADVISOR JAN STROO.

NET INCOME

Interest income for the year was $368 million, compared to $391 million for 1990-1991. The $23 million decrease is a reflection of lower average loans receivable balances compared to the previous year, and lower interest rates on new lending and short-term investments. The decline in interest income was offset by a reduction in interest expense which was attributable to lower average outstanding debt and lower interest rates.

In reporting interest income, FCC excludes non-accrual interest, which represents the interest deducted from gross interest income for loans classified as non-accrual, as defined in the notes to the financial statements. The interest thus excluded amounted to $21 million in 1991-1992. Although slightly lower than the $22 million excluded in 1990-1991, the amount represents 6 per cent of gross interest income. The Corporation is continuing efforts to work with farmers in difficulty, and is attempting to move non-accruing loans through to satisfactory resolution. In fact, the total amount owing on non-accrual loans was reduced this year, from $485 million at the start of the year to $445 million at year end, an improvement of 8 per cent.

Net lease revenue from real estate was a significant source of income again in 1991-1992, as many Farm Debt Review Boards' settlements involved lease back arrangements and a number of farmers took advantage of the Equity-Building Lease Program. Net lease and other revenue was $34 million in 1991-1992, unchanged from the previous year. These revenues are reported after deducting operating expenses necessary to maintain the properties, and do not consider the funding cost of carrying the properties, which is included in interest expense.

Administrative expenses for 1991-1992 totalled $56 million, an increase of 6 per cent over the $53 million incurred in 1990-1991. Increases in salaries and office accommodation, as well as costs related to special projects, accounted for most of the additional expense. The increased lending volume, along with property administration, collection efforts and Farm Debt Review Boards' settlements consumed large portions of staff time. In addition, major projects to develop FCC's information and loan accounting systems were launched during the year.

Net income was $22 million, compared to $21 million in 1990-1991. This result represented a return on average assets of 0.58 per cent, in comparison with the return of 0.53 per cent reported in 1990-1991.

Assets

Total assets were $3.7 billion at year end, compared to $3.8 billion the previous year. The composition of the assets remained almost unchanged, with net loans receivable making up 91 per cent of total assets, and real estate acquired in settlement of loans comprising 6 per cent.

Gross loans receivable at year end totalled $3.5 billion, a decrease of 3 per cent from the $3.6 billion at March 31, 1991. The new lending increase was more than offset by loan repayments and prepayments, and transfers of loans to real estate.

The allowance for loan losses stood at $160 million at the end of the year, representing 4.6 per cent of gross loans receivable. This amount was a significant improvement compared to the $233 million allowance, representing 6.4 per cent, at March 31, 1991.

Although there was significant activity in the Corporation's real estate portfolio during the year, the value of total property held at year end was only slightly lower than at the start of the year due to a general decrease in land values. Acquisitions of $66 million, sales of $49 million, and the write-down of the real estate portfolio value of $19 million, resulted in a year-end value of $223 million, compared to $225 million at the start of the year.

ROCK BÉDARD, POULTRY PRODUCER OF ST-ÉLIE-D'ORFORD, QUEBEC, WITH CREDIT ADVISOR LOUIS PAYETTE.

Funding activity

In the course of 1991-1992, the Corporation borrowed a total of $516 million in long-term debt to fund its portfolio of mortgages and property holdings.

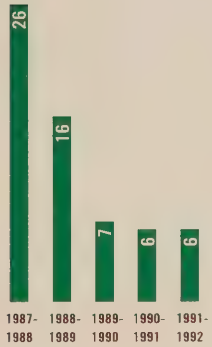
On a year-over-year basis, the total of long and short-term funding outstanding declined by $258 million. This decline was due primarily to the use of the goverment's capital contribution of $100 million to repay long-term debt, and the use of $83 million in cash and short-term investments to reduce an equal amount of short-term debt.

The Corporation continued to diversify its funding alternatives during the year by launching a Medium and Long-Term Note Program. This program offers retail investors the opportunity to purchase FCC notes with maturities from one to 29 years. Continued access to the government funding sources was negotiated, and opportunities for private placement offerings were continually investigated.

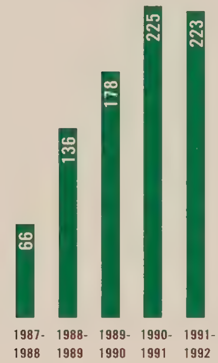
Net interest income
($ millions) for the year ended March 31

Administrative expenses
($ millions) for the year ended March 31

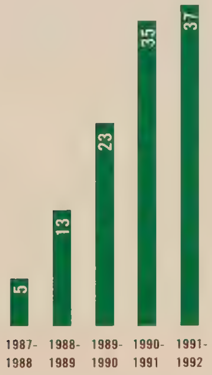
Non-accrual interest
(% of gross interest income) for the year ended March 31



Real properties
($ millions) as at March 31



Lease revenue and other income
($ millions) for the year ended March 31

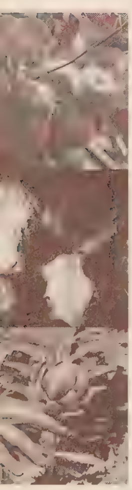


Net interest margin (%)
(net interest income/average assets) for the year ended March 31

Interest rates and margins

FCC's borrowing and lending rates were relatively stable over the first half of 1991-1992, declined gradually for most of the second half, then marginally increased towards the end of the year. Lending rates were adjusted frequently in the last half of the year to reflect changing conditions in the financial markets.

The net interest margin, as a percentage of average total assets, has remained the same as last year at 1.24 per cent.



JANET AND STANLEY WASILEWSKI JR., GRAIN AND BEEF PRODUCERS OF NORTH BATTLEFORD, SASKATCHEWAN, WITH THEIR DAUGHTER AMANDA AND SON JEFFREY.

TABLE 1 LOANS APPROVED BY PROVINCE *(Farm Credit Act)*

	1991-1992		1990-1991	
	NUMBER	NET AMOUNT ($000's)	NUMBER	NET AMOUNT ($000's)
British Columbia	181	30,522	98	13,291
Alberta	373	37,040	163	12,250
Saskatchewan	565	32,803	443	23,190
Manitoba	426	35,363	284	16,625
Ontario	827	117,161	461	56,837
Quebec	462	52,921	453	43,107
New Brunswick	67	8,257	46	4,632
Nova Scotia	25	3,447	13	1,895
Prince Edward Island	66	6,963	43	4,178
Newfoundland	15	2,642	9	923
Canada	3,007	327,119	2,013	176,928

TABLE 2 LOANS RECEIVABLE PORTFOLIO AS AT MARCH 31, 1992 *($000'S) (All programs)*

	NUMBER	PRINCIPAL NOT DUE	ARREARS	ACCRUED INTEREST	AMOUNTS HELD FOR FUTURE INSTALMENTS	NET TOTAL
British Columbia	1,942	153,336	3,633	6,131	(5,449)	157,651
Alberta	8,950	397,094	12,075	23,095	(6,135)	426,129
Saskatchewan	19,647	1,001,808	63,555	60,927	(9,176)	1,117,114
Manitoba	6,300	287,001	6,641	14,015	(5,443)	302,214
Ontario	14,497	989,847	13,799	38,024	(31,425)	1,010,245
Quebec	6,716	431,708	1,041	16,309	(11,410)	437,648
New Brunswick	821	57,011	982	2,604	(1,696)	58,901
Nova Scotia	100	7,293	144	233	(184)	7,486
Prince Edward Island	729	39,990	1,079	1,960	(864)	42,165
Newfoundland	143	14,123	362	519	(671)	14,333
Canada	59,845	3,379,211	103,311	163,817	(72,453)	3,573,886
Adjustment to principal and interest relating to non-accrual loans		27,067	32,398	13,829		73,294
Loans receivable	59,845	3,352,144	70,913	149,988	(72,453)	3,500,592

A SENIOR 4-H TEAM MEMBER, CRAIG CHERRY, RECEIVES A PLAQUE FROM CREDIT ADVISOR JAYE ATKINS AT THE NORFOLK COUNTY FAIR IN ONTARIO. **B** FCC WAS A CO-SPONSOR OF THIS HOECHST TOUR IN FOXWARREN WHICH GATHERED APPROXIMATELY 400 FARMERS FROM CENTRAL MANITOBA. **C** GEORGE JONES, REGIONAL VICE-PRESIDENT FOR ALBERTA/B.C., PRESENTS A $300 SCHOLARSHIP TO 4-H MEMBER SANDRA BAHRYNOWSKI. **D** COREY BECK, STUDENT AT THE FAIRVIEW COLLEGE, RECEIVES A $250 SCHOLARSHIP FROM OTILIA MORGAN, CREDIT ADVISOR AT THE FAIRVIEW OFFICE IN ALBERTA. **E** GROUP SESSION AT FCC'S BRANDON OFFICE IN MANITOBA, AS PART OF A 4-H CONFERENCE. **F** ASSISTANT VICE-PRESIDENT RON WITHERSPOON WITH BROADCASTER KNOWLTON NASH, DURING HIS RECENT VISIT TO REGINA, SASKATCHEWAN, ON A SPEAKING TOUR CO-SPONSORED BY FCC. **G** ANDRÉ GAUVIN, STUDENT AT L'INSTITUT DE TECHNOLOGIE AGRO-ALIMENTAIRE DE LA POCATIÈRE, QUEBEC, RECEIVES A CERTIFICATE AND A $200 SCHOLARSHIP FROM CREDIT ADVISOR JEAN-PIERRE DUQUETTE. **H** OFFICE ASSISTANT ROSE-MARIE KYLE PRESENTS A $100 SCHOLARSHIP TO 4-H MEMBER VAL RAMAGE OF MANITOU, MANITOBA.

Working with Canadian agriculture for more than a quarter century, FCC has developed unquestioned expertise in farm finance and farm financial management.

Each year, FCC invests in the human and financial resources needed to participate in a variety of community activities.

Awarding trophies, participating at farm shows, delivering speeches, holding information seminars, providing financial support to rural groups such as 4-H, sponsoring special events, all these activities are examples of FCC demonstrating its community involvement and its pride in being part of Canadian agriculture.

I PUBLIC RELATIONS OFFICER TED YOUNG CONGRATULATES LEANNE WHITMORE OF SEAFORTH, ONTARIO, WINNER OF THE ROYAL AGRICULTURAL WINTER FAIR PUBLIC SPEAKING CONTEST. **J** CREDIT ADVISOR BOB HARLAND PRESENTS A 4-H ACHIEVEMENT AWARD TO COURTENAY MCLEOD AT THE PORTAGE FAIR IN MANITOBA. **K** STÉPHANE ALIX AND PATRICE PHANEUF ARE RECEIVING SCHOLARSHIPS FROM LOAN OFFICER LAURENT DUCHESNE AT THE 27TH GRADUATION CEREMONY OF L'INSTITUT DE TECHNOLOGIE AGRO-ALIMENTAIRE DE ST-HYACINTHE, QUEBEC. **L** FCC STAFF NANCY MOLENGRAAF, RON REGIER AND HOWARD SPARKES AT THE INTERNATIONAL PLOWING MATCH IN LAMBTON COUNTY, ONTARIO. **M** JENNY ZURLOFF, OFFICE ASSISTANT IN TISDALE, SASKATCHEWAN, PRESENTS A TROPHY TO KYLE CUNNINGHAM AT THE NIPAWIN 4-H ACHIEVEMENT DAY. **N** CREDIT ADVISOR ZEN LITTKE PRESENTS A $300 SCHOLARSHIP TO 4-H MEMBER EMERY KLEIN OF DELBURNE, ALBERTA. **O** JOHN BOYLE, CREDIT ADVISOR AT THE PRINCE ALBERT OFFICE IN SASKATCHEWAN, PRESENTS AWARDS AT THE RED DEER HILL 4-H CLUB PUBLIC SPEAKING COMPETITION.

TO THE MINISTER OF AGRICULTURE

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1992 and the statements of operations and deficit and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1992 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles. As required by the Financial Administration Act, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my examination of the financial statements have, in all significant respects, been in accordance with Part X of the Financial Administration Act and regulations, the Farm Credit Act and the by-laws of the Corporation.

L. Denis Desautels

L. DENIS DESAUTELS, FCA
Auditor General of Canada

Ottawa, Canada
May 28, 1992

FINANCIAL STATEMENTS

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's estimates and judgement.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations. In addition, the internal and external auditors have full and free access to the Audit Committee of the Board, which oversees management's responsibilities for maintaining adequate control systems and the quality of financial reporting.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.

JAMES J. HEWITT
Chairman and Chief Executive Officer

MAX PIERCE
Senior Vice-President, Finance

Farm Credit Corporation

BALANCE SHEET

As at March 31, 1992

	1992	1991
	(000's)	
ASSETS		
CASH AND SHORT-TERM INVESTMENTS	**$ 98,690**	$ 182,076
ACCOUNTS RECEIVABLE	**17,419**	13,327
LOANS RECEIVABLE, NET OF ALLOWANCE FOR LOAN LOSSES OF $160,000 (1991 - $232,665) (NOTES 3 AND 4)	**3,340,592**	3,378,346
REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS (NOTE 5)	**222,595**	224,711
OFFICE EQUIPMENT AND LEASEHOLD IMPROVEMENTS	**5,061**	5,452
UNAMORTIZED DEBT DISCOUNT AND ISSUE EXPENSES	**4,048**	6,470
	$3,688,405	$3,810,382
LIABILITIES		
ACCOUNTS PAYABLE AND ACCRUED LIABILITIES	**$ 7,641**	$ 7,198
DOWNPAYMENTS ON REAL ESTATE SALES	**6,926**	5,042
SHORT-TERM NOTES	**144,828**	306,544
PROVISION FOR HEAD OFFICE RELOCATION (NOTE 6)	**11,391**	-
PROVISION FOR EMPLOYEE TERMINATION BENEFITS	**4,192**	3,447
LOANS PAYABLE (NOTE 7)	**3,245,297**	3,341,587
	3,420,275	3,663,818
EQUITY		
CONTRIBUTED CAPITAL (NOTE 9)	**1,118,333**	1,018,333
DEFICIT	**(850,203)**	(871,769)
	268,130	146,564
	$3,688,405	$3,810,382

APPROVED:

The accompanying notes are an integral part of the financial statements.

J. Hewitt

JAMES J. HEWITT
Chairman and Chief Executive Officer

George Klosler

GEORGE KLOSLER
Director

Farm Credit Corporation

STATEMENT OF OPERATIONS AND DEFICIT

For the year ended March 31, 1992

	1992	1991
	(000's)	
INTEREST INCOME		
LOANS RECEIVABLE	$ 355,385	$ 370,928
SHORT-TERM INVESTMENTS	12,982	19,860
	368,367	390,788
INTEREST EXPENSE		
LOANS PAYABLE	300,636	325,625
SHORT-TERM NOTES	21,368	17,772
	322,004	343,397
NET INTEREST INCOME	46,363	47,391
PROVISION (RECOVERY OF PROVISION) FOR LOAN LOSSES (NOTE 4)	(12,796)	3,684
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	59,159	43,707
LEASE AND OTHER REVENUE FROM REAL ESTATE, NET OF OPERATING EXPENSES OF $4,748 (1991-$6,783)	33,765	34,170
OTHER INCOME	3,682	1,284
NET INCOME BEFORE NON-INTEREST EXPENSES	96,606	79,161
ADMINISTRATIVE EXPENSES	55,716	52,544
PROVISION FOR HEAD OFFICE RELOCATION (NOTE 6)	13,300	-
INCOME TAXES - LARGE CORPORATIONS TAX (NOTE 10)	6,024	6,173
NET INCOME FOR THE YEAR	21,566	20,444
DEFICIT AT BEGINNING OF THE YEAR	(871,769)	(892,213)
DEFICIT AT END OF THE YEAR	$ (850,203)	$ (871,769)

The accompanying notes are an integral part of the financial statements.

Statement of Changes in Cash Position

For the year ended March 31, 1992

	1992	1991
	(000's)	
Operating activities		
NET INCOME FOR THE YEAR	**$ 21,566**	$ 20,444
ITEMS NOT INVOLVING CASH		
PROVISION (RECOVERY OF PROVISION) FOR LOAN LOSSES	**(12,796)**	3,684
CHANGE IN ACCRUED INTEREST RECEIVABLE	**21,163**	20,286
CHANGE IN ACCRUED INTEREST PAYABLE	**(3,743)**	(13,405)
PROVISION FOR HEAD OFFICE RELOCATION	**11,391**	-
OTHER	**5,026**	(7,365)
Cash provided by operating activities	**42,607**	23,644
Investing activities		
LOANS RECEIVABLE DISBURSED	**(339,728)**	(184,530)
LOANS RECEIVABLE REPAID	**325,699**	248,511
PROCEEDS FROM DISPOSAL OF REAL ESTATE	**45,532**	60,687
OTHER	**(3,232)**	(4,897)
Cash provided by investing activities	**28,271**	119,771
Financing activities		
LOANS FROM CANADA	**515,500**	256,250
LOANS REPAID TO CANADA	**(338,548)**	(388,321)
LOANS REPAID TO CAPITAL MARKETS	**(269,500)**	(273,460)
INCREASE IN CONTRIBUTED CAPITAL	**100,000**	200,000
CHANGE IN SHORT-TERM NOTES	**(161,716)**	196,088
Cash used in financing activities	**(154,264)**	(9,443)
Increase (decrease) in cash and short-term investments	**(83,386)**	133,972
CASH AND SHORT-TERM INVESTMENTS AT BEGINNING OF THE YEAR	**182,076**	48,104
Cash and short-term investments at end of the year	**$ 98,690**	$182,076

The accompanying notes are an integral part of the financial statements.

Farm Credit Corporation

NOTES TO FINANCIAL STATEMENTS

March 31, 1992

1. The Corporation

(a) Authority and objectives

Farm Credit Corporation ("the Corporation") was established in 1959 by the Farm Credit Act as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the Financial Administration Act. The Corporation makes and administers farm loans under the authority of the Farm Credit Act and the Farm Syndicates Credit Act, and administers programs as requested by the Government of Canada ("the government").

The Corporation's role, as clarified in the Corporate Plan approved in 1988, is to provide mortgage credit and complementary financial services to Canadian farmers on a break-even basis and, when called upon by the government, to deliver specific government programs on a cost-recovery basis.

The Corporation is discussing possible changes to the Farm Credit Act and Farm Syndicates Credit Act with the government. These changes would, among other things, provide for the relocation of the Corporation's head office to Regina, Saskatchewan, streamline administrative practices and provide for a marginal expansion of the Corporation's lending mandate.

(b) Financial restructuring

The government approved a financial restructuring for the Corporation which covered the four-year period ended March 31, 1992 and established operating policies and management guidelines within which the Corporation is to operate.

2. Significant accounting policies

(a) Revenue recognition

Interest income is recorded on the accrual basis until such time as management determines that a loan should be classified as non-accrual. A loan is classified as non-accrual when:

1) principal or interest is six months past due, unless the loan is well secured, or

2) circumstances indicate doubt as to the ultimate collectibility of principal or interest.

When a loan is initially classified as non-accrual, uncollected interest recognized in the year is reversed against interest income and, where necessary, uncollected interest recognized in previous years is provided for in the allowance for loan losses.

Interest payments on non-accrual loans are recorded as interest income when received where it has been determined that the loan does not require a specific provision for loss; otherwise, they are credited to principal.

Non-accrual loans return to accrual status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Lease and other revenues from real estate are recorded when earned.

Loan fees and charges are recorded as other income when earned.

(b) Allowance for loan losses

The allowance for loan losses represents management's best estimate of probable losses on the loans outstanding at the end of the year in light of current conditions. It has a specific and a general component.

The specific component is determined based on a loan-by-loan review of undersecured loans. Specific provisions are established for individual loans, where circumstances indicate doubt as to the ultimate collectibility of principal or interest, to value these loans at the lower of their recorded investment or the estimated net realizable value of the underlying security for the loans.

The general component, which is prudential in nature, is established to provide for losses on loans which cannot yet be identified on a loan-by-loan basis. In addition, as a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting certain agricultural regions or sectors. Accordingly, management has also considered the impact of such factors as land value trends, federal and provincial government programs, international trade negotiations, and future commodity prices and climatic conditions in establishing the general component of the allowance. However, future agricultural and economic conditions are not predictable with certainty and, therefore, actual loan losses may vary from management's estimate.

The government has announced its intention to reimburse the Corporation for concessions it will make to farmers during the next year as a result of its participation in the Farm Debt Review process. The type of concessions to be made through the process, and the extent to which they will reduce the Corporation's loan losses, are not presently known. They are, therefore, not included in establishing the allowance for loan losses.

Actual loan losses, write-downs of acquired real estate, and losses on the sale of real estate are charged to the allowance while recoveries are credited to the allowance. Adjustments of the allowance to the level regarded by management as being appropriate are applied to operations.

(c) Real estate acquired in settlement of loans

Real estate is recorded at the lower of the amount of the loan outstanding or the estimated net realizable value at the time of acquisition. Subsequent declines in estimated net realizable value are charged to the allowance for loan losses in the year in which they occur.

(d) Farm Debt Review process

Amounts received from the government on behalf of farmers for concessions granted by the Corporation under the Farm Debt Review process are applied as if they had been received directly from the farmers.

(e) Office equipment and leasehold improvements

Office equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of office equipment and leasehold improvements according to the following methods and rates:

	METHODS	RATES
EQUIPMENT AND FURNITURE	DECLINING BALANCE	20%
COMPUTER EQUIPMENT AND SOFTWARE	STRAIGHT-LINE	20%
LEASEHOLD IMPROVEMENTS	STRAIGHT-LINE	LEASE TERM PLUS THE FIRST RENEWAL OPTION.

(f) Debt discount and issue expenses

Debt discount and issue expenses are amortized on a straight-line basis over the life of the debt and are included in interest expense on loans payable.

(g) Translation of foreign currencies

Loans and related interest payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are included with debt discount and issue expenses. These amounts are amortized on a straight-line basis and are charged to interest expense over the lives of the obligations.

(h) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to matching the employees' contributions for current service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

(i) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(j) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred tax benefits which have not been recorded and will only be recognized when there is virtual certainty that they will be realized.

3. Loans receivable

	ANNUAL INTEREST RATE (%)	1992	1991
		(000's)	
LOANS TO FARMERS, SECURED BY MORTGAGES	5-15	**$3,333,738**	$ 3,416,781
LOANS TO FARM SYNDICATES, SECURED BY NOTES	7-14 5/8	**11,683**	6,607
LOANS RECEIVABLE FROM REAL ESTATE SALES, SECURED BY AGREEMENTS FOR SALE OR MORTGAGES	5-14 7/8	**35,486**	35,470
		3,380,907	3,458,858
ACCRUED INTEREST - CURRENT		**84,781**	88,862
- ARREARS		**34,904**	63,291
		3,500,592	3,611,011
LESS: ALLOWANCE FOR LOAN LOSSES		**160,000**	232,665
		$3,340,592	$ 3,378,346

At March 31, 1992, the Corporation had 4,209 loans representing $445 million of loans receivable classified as non-accrual (1991 - 4,333 representing $485 million). During the year, interest not recognized on non-accrual loans amounted to $21 million (1991 - $22 million). The accumulated interest not recognized on non-accrual loans outstanding at March 31, 1992 amounted to $73 million (1991 - $82 million).

4. Allowance for loan losses

THE SUMMARY IS AS FOLLOWS:

	1992	1991
	(000's)	
BALANCE AT BEGINNING OF THE YEAR	**$ 232,665**	$ 279,365
WRITE-OFFS, NET OF RECOVERIES	**(40,336)**	(42,137)
DECLINES IN VALUE OF REAL ESTATE	**(19,533)**	(8,247)
PROVISION (RECOVERY OF PROVISION) FOR LOAN LOSSES	**(12,796)**	3,684
BALANCE AT END OF THE YEAR	**$ 160,000**	$ 232,665

SPECIFIC ALLOWANCE	**$ 47,000**	$ 48,665
GENERAL ALLOWANCE	**113,000**	184,000
BALANCE AT END OF THE YEAR	**$ 160,000**	$ 232,665

5. Real estate acquired in settlement of loans

THE SUMMARY IS AS FOLLOWS:

	1992	1991
	(000's)	
BALANCE AT BEGINNING OF THE YEAR	**$ 224,711**	$ 178,281
ACQUISITIONS	**66,329**	110,316
DISPOSALS	**(48,912)**	(55,639)
DECLINES IN VALUE OF REAL ESTATE	**(19,533)**	(8,247)
BALANCE AT END OF THE YEAR	**$ 222,595**	$ 224,711

Real estate represents farm property acquired in the process of administering loans receivable and must be disposed of within five years of acquisition or such further period as the Governor in Council may prescribe.

Real estate under long-term lease may be subject to renewal at the expiry of the original lease term. Lease maturities by fiscal year are as follows:

	1992
	(000's)
NOT CURRENTLY LEASED	**$ 30,074**
1993	**56,469**
1994	**84,699**
1995	**50,675**
1996	**678**
	$ 222,595

6. Head office relocation

The Corporation intends to relocate its head office to Regina, Saskatchewan effective September 1992. Estimated expenses associated with this move have been charged to operations in the current year.

7. Loans payable

	Annual interest rate (%)	1992	1991
		(000's)	
LOANS FROM CANADA, SECURED BY NOTES			
FARM CREDIT ACT	6-12 1/8	**$2,485,599**	$ 2,309,233
FARM SYNDICATES CREDIT ACT	7 5/8-11	**5,123**	4,536
LOANS FROM CAPITAL MARKETS, SECURED BY NOTES FARM CREDIT ACT PAYABLE IN:			
U.S. DOLLARS (375,000,000)	9-10 3/4	**507,987**	507,987
SWISS FRANCS (100,000,000)	11	**59,666**	59,666
JAPANESE YEN (7,660,000,000)	9 1/4	**-**	69,500
CANADIAN DOLLARS	10 3/4-12 1/8	**105,000**	305,000
		3,163,375	3,255,922
ACCRUED INTEREST		**81,922**	85,665
		$3,245,297	$ 3,341,587

AMOUNTS DUE BY FISCAL YEAR ARE AS FOLLOWS:

1992	$ -	$ 408,816
1993	385,732	468,387
1994	603,998	585,510
1995	355,430	351,699
1996	313,185	314,414
1997	526,161	458,624
1998 to 2005	978,869	668,472
	3,163,375	3,255,922
ACCRUED INTEREST	**81,922**	85,665
	$3,245,297	$ 3,341,587

As part of the financial restructuring, $100 million of loans from Canada (1991 - $200 million) was repaid during the year from the increase in contributed capital. The government decided that no interest would be payable on these loans from October 1, 1991 to the date on which they were repaid.

8. Limits on borrowing

The Farm Credit Act limits the aggregate amount outstanding of the principal borrowings by the Corporation pursuant to the Act to 25 times the contributed capital of the Corporation. At March 31, 1992, the Corporation's outstanding borrowings under this Act, comprising short-term notes of $141 million and loans payable of $3,163 million, were 2.96 times the contributed capital of $1,118 million (1991 - 3.49 times the contributed capital of $1,018 million).

The Farm Syndicates Credit Act limits the loans from Canada pursuant to the Act to $25 million. At March 31, 1992, the Corporation's loans from Canada under this Act were $5 million (1991 - $5 million).

9. Contributed capital

The contributed capital of the Corporation represents the amount received from Canada under section 12 of the Farm Credit Act. The statutory limit was increased by $100 million in the current year to $1,125 million (1991 - $1,025 million).

As part of the financial restructuring, Canada increased its contributed capital by $100 million. The Corporation has applied this amount to the repayment of loans from Canada.

10. Income taxes

(a) Timing differences of approximately $214 million are available to the Corporation as at March 31, 1992. These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for loan losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes which has not been recognized in the financial statements amounts to $763 million and expires on the dates indicated:

	(000's)
MARCH 31, 1995	**$ 89,000**
1996	**194,000**
1997	**480,000**
	$763,000

During the current year the Corporation will incur no income tax expense, other than the large corporations tax, due to the utilization of $21 million in loss carry-forwards.

(b) Income taxes payable by the Corporation relate to the large corporations tax, which may be offset against any current or future surtaxes payable. The Corporation has no surtax currently payable.

11. Commitments to farmers

As at March 31, 1992, loans to farmers approved but not disbursed amounted to $58 million (1991 - $47 million). These loans were approved at interest rates from 9% to 12.25%. It is expected that the majority of these loans will be disbursed within the six-month period ending September 30, 1992.

12. Operating leases

Future minimum payments by fiscal year on operating leases for premises, with initial non-cancellable lease terms in excess of one year, are as follows:

	(000's)
1993	$ 3,823
1994	3,093
1995	2,728
1996	2,105
1997	1,095
1998 to 2000	735
	$ 13,579

These leases generally provide for the payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

13. Government program

Farm Debt Review process

During the year, the Minister of Agriculture was authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the Farm Debt Review Act. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments, or the Corporation proceeds with recovery action.

The government has announced its intention to extend the fund to cover concessions to be granted over the period ending March 31, 1993. Since the inception of the Farm Debt Review process, the Corporation has offered $217 million in concessions and billed $163 million to the government of which $42 million was billed in the current year and $121 million in prior years. The committed difference of $54 million will be due and received over the next five years as farmers meet their commitments and thereby realize the benefits of the concessions.

14. Comparative figures

Certain 1991 comparative figures have been reclassified to reflect the presentation adopted in 1992.

MEMBERS OF THE BOARD

The Board of the Corporation has seven members appointed by the Governor in Council. The Chairman and the Vice-Chairman of the Board are also officers of the Corporation. The Chairman is the Chief Executive Officer and, as such, directs and supervises the operations of the Corporation.

C. GERALD PENNEY, CA
Vice-Chairman

DON SWENSON
Saskatchewan

GEORGE KLOSLER*
Ontario

FRED MCCAIN*, CA
New Brunswick

DESMOND GEORGE
British Columbia

JAMES J. HEWITT*, FCMA
Chairman

JEANNINE BOURQUE
Quebec

** Member of the Audit Committee*

Corporate executive

James J. Hewitt
Chairman and Chief Executive Officer

C. Gerald Penney
Vice-Chairman and Chief Operating Officer

Senior management

Thomas S. Barton
Senior Vice-President, General Counsel
Corporate Secretary

Janice Whitters
Executive Assistant to the Vice-Chairman
Assistant Corporate Secretary

Brian Strom
Senior Vice-President, Operations

Max Pierce
Senior Vice-President, Finance

Terry Kremeniuk
Vice-President, Research and Planning

SuzAnne Doré
Vice-President, Administration

Pierre Laflamme
Vice-President, Corporate Audit

Madonna Bailey
Vice-President and Treasurer

Colin Brooker
Vice-President and Controller

Jean Valin
Assistant Vice-President, Communications

George Jones
Regional Vice-President
Alberta/British Columbia

Russ Holm
Regional Vice-President
Saskatchewan

Marshall Stachniak
Regional Vice-President
Manitoba

Bob Aumel
Regional Vice-President
Ontario

Jacques Doran
Regional Vice-President
Quebec

John Van Abbema
Regional Vice-President
Atlantic

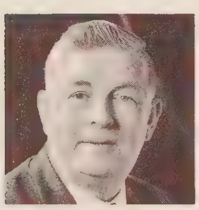
MEMBERS OF THE ADVISORY COMMITTEE

The Advisory Committee is appointed by the Minister of Agriculture to advise him and the Corporation on lending policy matters. Most members are farmers or operators of agricultural businesses.

GARNET RICKARD
Chairman, Ontario

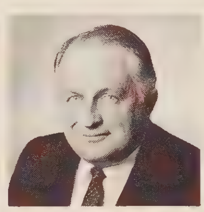
JEANNINE CARON-GIASSON
Quebec

EDWARD MAZER
Manitoba

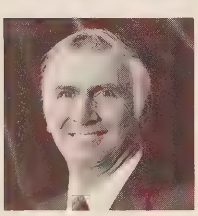


LEON BREMNER
New Brunswick

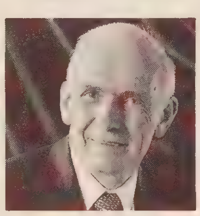
J. HARVEY GJESDAL
Saskatchewan



JACK CUMMING
Ontario



KEITH BARRETT
Prince Edward Island



DON KNOERR
British Columbia

WILLIAM A. VERHAGEN
Alberta

CHAIRMEN OF APPEAL BOARDS

Appeal Boards, composed of farmers of proven ability and judgement, are established in each province to hear appeals from farmers who are dissatisfied with the Corporation's decision on their loan applications. During the year, 22 appeals were heard and, based on Appeal Boards' recommendations, FCC modified its decision on four applications.

Mr. Burris Coburn passed away in December 1991. He had been a member of the New Brunswick Appeal Board since 1976, and his contribution will be greatly missed.

E.T. (TED) OSBORN
British Columbia

GEORGE TEMPLETON
Alberta

DONALD JOHNSON
Saskatchewan

KENNETH LYLE YOUNG
Manitoba

EDWARD J. MAILLOUX
Ontario

RAYNALD CÔTÉ
Quebec

W. BURRIS COBURN
New Brunswick

THOMAS MEREDITH
Nova Scotia

WILBERT MACKENZIE
Prince Edward Island

DENNIS GALWAY
Newfoundland

Regional offices	District offices	Field offices
Alberta/British Columbia*		
101 St. Building Suite 1550 10250-101st Street Edmonton, Alta. T5J 3P4 (403) 495-4488	Grande Prairie, Kelowna, Lacombe, Lethbridge, Vegreville, Westlock	Abbotsford, Athabasca, Barrhead, Brooks, Calgary, Camrose, Dawson Creek, Drumheller, Edmonton,Evansburg, Fairview, Falher, Hanna, Medicine Hat, Olds, Peace River, Stettler, St. Paul, Vermilion, Wainwright, Wetaskiwin

**Yukon Territory is served through the Edmonton Office*

Regional offices	District offices	Field offices
Saskatchewan		
Suite 110 2401 Saskatchewan Drive Regina, S4P 4H9 (306) 780-5610	North Battleford, Prince Albert, Regina, Saskatoon, Swift Current, Yorkton	Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake, Moose Jaw, Rosetown, Tisdale, Weyburn, Wynyard
Manitoba		
400-5 Donald Street Winnipeg, R3L 2T4 (204) 983-4039	Brandon, Portage la Prairie, Winnipeg	Arborg, Carman, Dauphin, Killarney, Morden, Neepawa, Virden
Ontario		
Unit 201 450 Speedvale Ave. West Guelph, N1H 7G7 (519) 821-1330	Chatham, Guelph, Lindsay, Nepean, Walkerton, Woodstock	Barrie, Campbellford, Casselman, Essex, Goderich, Kingston, Lambeth, Listowel, New Liskeard, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Wyoming
Quebec		
Édifice Champlain Suite 2000 2700 Laurier Blvd., Box 3600 Ste-Foy, G1V 4C7 (418) 648-3993	Ste-Foy, St-Hyacinthe, Sherbrooke	Alma, Arthabaska, Drummondville, Gatineau, Granby, Joliette, Rimouski, Roberval, St-Georges de Beauce, St-Jean, St-Jérôme, Trois-Rivières, Valleyfield
Atlantic		
Suite 230 1133 St. George Blvd. Moncton, N.B., E1E 4E1 (506) 851-6595	Charlottetown, Moncton	Fredericton, Grand Falls, Kentville, St. John's, Summerside, Sussex, Truro, Woodstock

FCC's planning process incorporates input from staff and clients to develop corporate objectives for the next five years. The purpose of the process is to provide FCC with the strategic directions needed to carry out its mission and fulfill the mandate stated in the Farm Credit Act.

ERWIN AND COLETTE ROHRBACH, DAIRY AND SEED PRODUCERS AND BROWN SWISS DAIRY CATTLE BREEDERS OF LACOMBE, ALBERTA, WITH THEIR SONS OLIVER AND NICOLAS.

The corporate objectives provide the framework by which regional operations and support services can plan and budget for the year ahead.

The corporate objectives identified by FCC's Board of Directors and Senior Management to be achieved by 1997 are:

- **To have FCC's legislation amended to provide the Corporation with greater flexibility to contribute to Canadian agriculture.**

The financing needs of the agricultural industry have become more sophisticated and complex. To increase its responsiveness to those needs and provide its clients with the high level of service they expect, the Corporation has requested amendments to the thirty-year old Farm Credit Act.

- **To ensure FCC's viability by establishing and maintaining an appropriate capital structure represented by a debt-to-equity ratio of 7:1 by March 31, 1997.**

The Corporation has made significant progress towards achieving the objectives set in its July 1988 Recovery Plan. FCC will continue to maintain cost recovery on operations and will work towards an improved balance between debt and equity.

- **To maintain FCC's mortgage portfolio in excess of $3.4 billion over the five-year planning period.**

High arrears levels reached during the past decade have been steadily dropping due to loans being restructured or written off through the Farm Debt Review process. In addition, many of the long-term loans made prior to 1975 are maturing, and a large number of the more recent clients have chosen shorter amortization periods. These combined factors have caused the portfolio to decrease rapidly. FCC will maintain its portfolio by offering improved products and services and seeking new lending opportunities.

- **To strengthen lending controls by implementing the enhanced Lending Control Framework.**

FCC has developed comprehensive action plans to strengthen its current and future lending practices. Implementing a new lending framework will allow FCC to have a consistently high standard of measuring credit quality across the country, supported by accurate information and reporting systems, to ensure effective management and accountability for operations.

- **To redesign information systems and upgrade technology through the implementation of the Information Strategic Plan (ISP), in order to provide FCC's staff and clients with timely and accurate information.**

Using advanced information technology is critical to the success of any financial institution. Implementing the ISP will allow FCC to provide decision makers with timely, high quality information. The result will be better service to all clients.

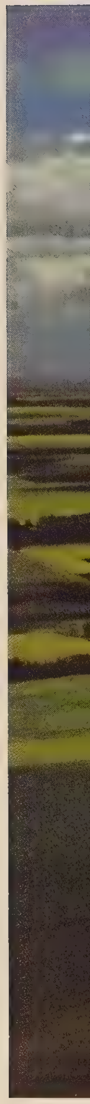
- **To design and implement the Human Resource Plan which will ensure the appropriate combination of qualifications and skills to meet future and ongoing needs.**

The Corporation will experience significant change which will impact directly on current employees. Relocation of the head office to Regina, implementation of new technology and establishment of an updated mandate will present many challenges and opportunities. Through effective human resource planning, the Corporation will assist staff and management in dealing with the expected changes over the next five years.

NEW HEAD OFFICE ADDRESS IN REGINA:
1800 HAMILTON STREET
REGINA, SASKATCHEWAN

MAILING ADDRESS:
P.O. BOX 4320
REGINA, SASKATCHEWAN
S4P 4L3

DESIGN: MARUSKA STUDIOS PHOTOGRAPHY: DAN MARUSKA, PAUL SAYERS, JOHN SLEEMAN, DON LANFFORD, ROSS DAVIDSON PILON, FRANCIS PETERS AND DARLENE HILDEBRANDT. SPECIAL THANKS TO OMAF AND FCC STAFF WHO CONTRIBUTED PHOTOS FOR THIS REPORT. PRINTING: THE RUNGE PRESS LIMITED, USING VEGETABLE-BASED INKS AND PAPER MANUFACTURED IN ACCORDANCE WITH THE HIGHEST STANDARDS FOR THE PROTECTION OF THE ENVIRONMENT. FILMWORK: CHROMASCAN



FARM CREDIT CORPORATION

ANNUAL REPORT 1992 - 1993

OUR PURPOSE

"TO ENHANCE RURAL CANADA BY PROVIDING SPECIALIZED AND PERSONALIZED FINANCIAL SERVICES TO FARMING OPERATIONS, INCLUDING FAMILY FARMS, AND TO THOSE BUSINESSES IN RURAL CANADA, INCLUDING SMALL AND MEDIUM-SIZED BUSINESSES, THAT ARE RELATED TO FARMING"

CONTENTS

CORPORATE PROFILE

The Farm Credit Corporation is a Crown corporation that reports to Parliament through the Minister of Agriculture. It is dedicated exclusively to serving the financial needs of Canadian farmers.

Its original mandate, established in 1959, was revitalized with the passage of the *Farm Credit Corporation Act* on April 2, 1993.

The new Act broadens the Corporation's mandate, allowing FCC to make and guarantee loans to farm businesses diversifying within the farm gate and those farm operations expanding into value-added businesses in order to increase profitability. The new Act also permits FCC to deliver joint programs and services with federal agencies, provincial governments and other lenders.

FCC has a loan portfolio of 57,000 accounts, valued at $3.3 billion. Its more than 750 employees serve clients from six regional offices and 100 field and district offices across Canada.

In response to the federal government's decentralization policy, the Corporation's head office was relocated from Ottawa to Regina, Saskatchewan, in 1992.

Farm Credit Corporation
1800 Hamilton Street
Regina, Saskatchewan
S4P 4K7

The Honourable
Charles Mayer, P.C., M.P.
Minister of Agriculture
Room 175, East Block
House of Commons
Ottawa, Ontario
K1A 0A6

The Honourable
Gilles Loiselle, P.C., M.P.
President of the Treasury Board
Room 807, Confederation Building
House of Commons
Ottawa, Ontario
K1A 0A6

Dear Ministers:

On behalf of the Board of Directors, I am pleased to submit Farm Credit Corporation's (FCC) annual report for the fiscal year ended March 31, 1993.

The report includes the financial statements and the auditor's report, in accordance with the *Financial Administration Act.*

The Corporation completed the relocation of its head office to Regina, Saskatchewan, in September 1992 with minimum disruption of service. The quality of FCC's loan portfolio continued to improve with a further decline in the number of accounts in arrears.

I am pleased to report that FCC recorded a net income of $20 million for 1992-1993, and that the Corporation has virtually met all of its performance objectives for the year.

Yours sincerely,

James J. Hewitt
Chairman and Chief Executive Officer

"THE FARM CREDIT CORPORATION, WITH ITS ABILITY TO PROVIDE FINANCING BEYOND THE FARM GATE, CAN PLAY A PIVOTAL ROLE IN ENABLING CANADIAN AGRICULTURE AND THE AGRI-FOOD INDUSTRY TO TAKE ADVANTAGE OF NEW MARKET OPPORTUNITIES."

Canada continued to struggle with political and economic issues during the past year. The federal and the provincial governments faced a difficult balancing act of having to reduce government spending while recognizing the need for reasonable government support during Canada's slow economic recovery. While inflation appeared to be under control, Canada still experienced high unemployment. As we worked on a North America Free Trade Agreement, the GATT negotiations ground to a halt. On the positive side, the Canadian dollar stabilized somewhat and interest rates declined significantly, allowing businesses and individuals to obtain reasonably-priced credit.

Within this mixed environment, the Farm Credit Corporation completed one of its most challenging yet successful years since incorporation in 1959. Our achievement was in accomplishing a number of major structural and operational changes while extending over $250 million in mortgage credit. Added to our list of accomplishments was the passage of the new *Farm Credit Corporation Act* and the relocation of our head office from Ottawa to Regina, Saskatchewan.

HEAD OFFICE RELOCATION

The Minister of Agriculture announced the move of FCC's head office to Regina in September 1991. Our challenge was to complete that move by September, 1992, without disrupting service to our clients. In the planning process, management took the opportunity to streamline the organization by reviewing

systems and practices, upgrading computer facilities, and restructuring management duties. Head office operations at 1800 Hamilton Street, Regina, opened for business on September 1, 1992. Only 61 of our 187 Ottawa employees relocated. While we lost a number of excellent employees, we were able to recruit highly qualified replacements. In a short period of time, our Regina office has become an efficient and effective operation.

The Board of Directors is deeply indebted to the Corporation's management and staff, both old and new, who met the challenges of the move and restructuring while maintaining service to our clients. The Board also acknowledges the staff of our offices across Canada for their support and understanding during the head office relocation.

OPERATIONAL HIGHLIGHTS

The Corporation's lending volume for the fiscal year was $277 million compared with $335 million in 1991-1992. Interest rates continued to decline from a March 1992 rate of 10 3/4 per cent on our five-year conventional mortgage to 9 3/8 per cent as of March 31, 1993. Similar reductions occurred in the majority of our mortgage products. With the worldwide political and economic uncertainties, however, Canadian farmers were cautious in their financing. Adequate cashflow for debt servicing was the order of the day. Many farmers were not prepared to risk borrowing unless they had complete confidence in their business plans. As a result, the quality of new loans granted in the past year was well within the Corporation's credit risk criteria.

Arrears declined to $68 million at year end, down $35 million from March 31, 1992. Our allowance for loan losses amounts to $124 million compared to $160 million as of March 31, 1992. As of year end, 88 per cent of FCC's loan portfolio was current, a vast improvement over the 73 per cent recorded in 1988-1989, the year our recovery plan was adopted.

The Corporation continues to hold title to a considerable amount of land. Acreage held at year end totaled 1.2 million acres, up from 1.1 million in 1991-1992. Of FCC's land holdings, 86 per cent has been leased back to the previous owners. In some cases farmers have exercised their options to purchase under the lease agreements and have once again acquired title. We hope this trend will continue, thereby contributing to a decline of our land holdings over the next few years.

We are concerned, however, with the province of Saskatchewan's recent legislation requiring all lenders to lease back properties to the previous owners. At present, the legislation has been ruled to be outside of the province's jurisdiction by the Saskatchewan Court of the Queen's Bench. At the time of writing this report, the case had moved to the Appeal Court of Saskatchewan. In our view, the legislation fails on two counts. First, constitutionally, the province cannot legislate on what the federal government does with land it owns. And second, the Act is discriminatory because it compensates banks and credit unions for lost income on the lease back of property but does not allow for FCC to be compensated. At present, our view is that this dispute will probably be escalated to the Supreme Court of Canada for final ruling.

CHAIRMAN'S REPORT

The Corporation realized a net income of $20 million for the fiscal year ended March 31, 1993, a decrease of $2 million from the previous year.

In the coming year, the Corporation will continue to improve client services. Also, recognizing that two thirds of our head office staff have been with FCC for less than a year, we will continue our strong emphasis on training and staff development programs.

AN EXPANDED ROLE FOR FCC

As a result of the federal government's agriculture policy review, Bill C-95, the *Farm Credit Corporation Act*, was introduced into the House of Commons on November 26, 1992. The Bill was given Royal Assent and became law on April 2, 1993. The new Act enables FCC to provide financing for on-farm diversification and value-added operations beyond the farm gate. With this expanded mandate, FCC will be able to provide financing to innovative farmers who have identified domestic and export markets for value-added products. Over the next fiscal year the Corporation will be developing policies and products to take advantage of its expanded role. The new legislation also gives the Corporation more administrative flexibility to respond to changing market conditions.

While our expanded mandate offers us considerable opportunities for new business, the Corporation's main role will still be the provision of long-term financing for individual farm operations.

TOWARDS THE YEAR 2000

Governments, both federal and provincial, recognized, and in most cases, addressed the question of deficit reduction. Recent budgets have indicated that government involvement in support programs for the agriculture industry is limited.

Competitiveness in the world market is the buzzword of the 1990's, and Canadian farmers, given the right tools, can compete in that marketplace. The Farm Credit Corporation, with its ability to provide financing beyond the farm gate, can play a pivotal role in enabling Canadian agriculture and the agri-food industry to take advantage of new market opportunities.

As we move towards the year 2000, necessary rationalization and adjustment must take place to truly enable Canadian farmers and our agri-food industry to compete in a global environment.

On the facing page, we have reprinted an article written by Mitch Treacy, a young farmer from Alberta, and published in an industry magazine. We are of the opinion that he has clearly stated what the future holds if Canadian farmers are prepared to take advantage of the opportunities available to them. As an agricultural lender, we are encouraged knowing that young farmers like Mr. Treacy stand ready to provide leadership in the twenty-first century.

James J. Hewitt
Chairman and Chief Executive Officer

As I write this, I feel the need to address the Wheat Growers and all other farmers as a whole. It is very apparent to me that we cannot solve the current agricultural crisis in this country until we decide in which direction we want to proceed. Unless we as farmers present a clear, concise vision of what we want, the government cannot formulate effective policies to rectify the problems or justify injecting hundreds of millions of taxpayers' dollars into our industry. At the present, we force the government to take a pragmatic and subsequently hypocritical approach to the problem, supporting the weaker links of our industry through intervention while at the same time demanding that other nations play by the rules of free trade.

It's time that we made some tough choices as farmers; I believe that we can take one of two future directions. We could either choose to accept increased government intervention at the producer level or to adopt a more independent approach. Farmers give the government and the public mixed signals about which path we want to take. I haven't yet met a producer who doesn't loathe the amount of government involvement in our industry, along with its bureaucracy and red tape. Yet, at the same time, when our industry faces drought or low prices, we go pleading for assistance. I think that it's time that we choose one approach or the other.

MITCH TREACY

When you examine the record of government intervention in agriculture, not only in Canada but in other nations as well, the choice is obvious. We have witnessed the inability of government programs to deal with the harsh realities of the agricultural crisis in Western Canada. I believe that the unintended consequences of intervention such as distortion of market signals, capitalization of benefits, creation of dependency, administrative costs and bureaucratic red tape outweigh the benefits. A system has developed that discourages competition and encourages inefficient use of our resources. Unproductive producers are rewarded while efficient producers are hampered.

I do not believe that it is a God-given right to be a wheat farmer. I do believe, however, that it is a privilege. There must be something extraordinary about farming as I look back at the four generations of my family who worked the land in this area. It is something that I am just beginning to understand.

We are part of a very select group of people who are fortunate enough to call ourselves farmers, undertaking one of the noblest professions in the world. While I acknowledge the fact that farming is a way of life, we must also realize that farming is a business. As in any other industry, a business must make certain adjustments to ensure its survival. We in farming should be no different. In tough times we must not only be good farmers but wise managers; we must rely on our resourcefulness, ingenuity and ability to adapt to a changing marketplace with changing needs. Our markets do not necessarily want the same products that we have always produced. We are just like any other producers; we must provide the product that our customer wants. In times like the present where the marketplace is extremely competitive, it is more important than ever to cater to exactly what our customers need.

As Canadian farmers, we take pride in the fact that we produce some of the highest quality wheat in the world; yet maybe producing high quality wheat is not the answer to our problems. If the market does not have a great demand for this product, we should not continue to produce it at current levels. We cannot sit and dream about the end of subsidy wars, that is out of our control, but we can become more adaptive, efficient, diverse and competitive in both our farming and business practices, whether it be growing different crops or variations of existing ones. It will be these factors that will ensure the Canadian grain farmer's survival in the future.

Change is a very important aspect of our industry. All sectors must adapt to increased competition as well as a changing marketplace. Whether this is the individual farmer, the Wheat Board or the railways, people must realize that adaptability to change will make the grain industry not only feasible but very profitable in the future. When we as farmers begin to take a new attitude and look at ourselves for the answers to our problems instead of accepting them or blaming everyone else, I cannot see anything but better times ahead of us. We must embrace the challenge of competition; an attitude such as this will breed success. Perhaps one of the greatest challenges facing mankind in the next century is that of feeding a rapidly growing population on a sustainable basis. If we can meet this challenge, agriculture will once again be a prosperous and enjoyable lifestyle for the Canadian farmer.

The financial success of Canadian farmers, and consequently Farm Credit Corporation, depends heavily on many external factors. Demand for agricultural credit in Canada, as well as repayment ability, will always be affected by national and international policy developments, economic conditions in the agricultural sector, world trade issues and political events.

EDITH RICHARDSON, CREDIT ADVISOR, DISCUSSES BUSINESS WITH GRANT OATWAY AND HIS SON WARD, TWO GENERATIONS OF ALBERTA FARMERS.

The Canadian economy is recovering very slowly. Inflation remained low, in the one to three per cent range during 1992. However the unemployment rate rose to nearly 12 per cent.

Farmland values declined 4 per cent between July 1991 and July 1992, continuing a downward trend. Farmers remain cautious about expanding operations in today's economic climate. Farmland values are expected to remain stable or decline marginally over the next year.

The federal and provincial governments continue to wrestle with deficits, with implications for a number of agricultural programs. Gross federal support payments were expected to

increase to $3.6 billion in 1992 to cover low commodity prices and poor quality crops due to weather conditions. Two income support programs, the Gross Revenue Insurance Program (GRIP) and the Net Income Stabilization Account (NISA) took full effect in 1992.

When adjusted for inflation, real farm cash receipts are expected to remain well below the levels recorded in the 1970's and early 1980's. The level of income support from the federal government increased from just under five per cent of cash receipts in 1983 to about 16 per cent in 1992.

Another contentious issue is the federal government's review of the future of western grain transportation subsidies. The debate centres over whether the so-called “Crow” benefit is paid to the railways, as it is now, or if it should be paid directly to producers.

The lower Canadian dollar valued against the American dollar has made Canadian farm export products more attractive south of the border. This is especially true in the cattle industry, with the Americans being the largest importer of Canadian beef.

The federal government also announced a trade opportunities strategy, with a $27 million budget, to help our farmers increase their share of the world agri-food export market.

Internationally, the agri-food industry continues to grow. Trends seem to indicate a shift away from bulk agriculture products toward more consumer-oriented products.

The increasing presence of the European Economic Community has prompted agricultural exporting countries like Canada to re-examine their own strategic positions and policy issues.

Another year has gone by without conclusion of some key issues at the General Agreement on Trade and Tariffs (GATT) negotiations. A successful resolution would put an end to the international subsidy war that has severely affected the income levels of 100,000 grain and oilseed farmers in Western Canada. The flip side of any GATT deal, however, could have a negative impact on 38,000 dairy, egg and poultry producers, if Canada’s supply management system is eliminated.

We believe, nevertheless, that the impact of any agreement would be gradual, with a phase-in period for both grain subsidy reductions and changes to the quota systems.

The new fiscal year will see these ever-present financial and operational issues brought before us again, along with new challenges that will require resolution. In all these considerations, FCC will hold fast to its purpose of "providing specialized and personalized financial services to farming operations, including family farms, and to those businesses in rural Canada, including small and medium-sized businesses, that are related to farming."

HIGHLIGHTS

OPERATIONAL	1992-1993	1991-1992	1990-1991	1989-1990	1988-1989
Total Loans Receivable Portfolio*					
Number	**56,687**	59,845	61,475	63,884	67,216
Amount ($ Millions)	**3,308.7**	3,503.1	3,611.0	3,852.8	4,182.3
Under Farm Credit Act*					
Number of Loans Approved	**2,556**	3,007	2,013	2,371	1,472
Amount of Loans Approved					
Gross ($ Millions)	**280.4**	358.3	190.5	214.5	136.1
Net ($ Millions)	**272.1**	327.1	176.9	201.0	102.3
Average Size of Loans Approved - Gross ($)	**109,696**	119,148	94,633	90,464	92,444
Percentage of Loans in Good Standing	**92.0**	89.2	87.9	86.5	84.5
Percentage of Total Owing in Good Standing	**87.8**	82.1	79.6	77.6	73.1
Real Property Held at Year End					
Number	**2,803**	2,609	2,371	1,864	1,485
Value ($ Millions)	**231.9**	222.6	224.7	178.3	135.6
Under Farm Syndicates Credit Act					
Number of Loans Approved	**178**	237	118	73	22
Amount of Loans Approved ($ Millions)	**5.0**	7.5	3.2	2.5	0.6

FINANCIAL	1992-1993	1991-1992	1990-1991	1989-1990	1988-1989
Revenues and Expenses ($ Millions)					
Net Interest Income	**47.8**	47.9	47.4	30.3	(27.8)
Net Provision (Recovery of Provision) For Loan Losses	**–**	(12.8)	3.7	3.2	(20.2)
Lease Revenue and Other Income	**34.5**	35.9	35.4	22.5	12.5
Administrative Expenses	**55.3**	55.7	52.5	47.3	39.4
Large Corporations Tax	**1.2**	6.0	6.2	5.0	–
Income (Loss) for the Year	**20.4**	21.6	20.4	(2.7)	(34.6)
Non-Accrual Loans					
Number	**3,374**	4,209	4,333	5,495	7,040
Total Owing ($ Millions)	**338.0**	445.0	485.3	641.4	808.2
Reduction of Interest Income Due to Non-Accrual ($ Millions)	**13.1**	21.3	21.6	30.9	75.0
Financial Position ($ Millions)					
Total Assets	**3,623.0**	3,686.9	3,810.4	3,816.7	4,031.7
Total Liabilities	**3,334.4**	3,418.8	3,663.8	3,890.6	4,702.9
Equity (Deficiency) of Canada	**288.6**	268.1	146.6	(73.9)	(671.2)

*See detail on opposite page

LOANS RECEIVABLE PORTFOLIO AS AT MARCH 31, 1993 ($000'S) (ALL PROGRAMS)

	Number	Principal Not Due	Arrears	Accrued Interest	Amounts Held For Future Installments	Net Total
British Columbia	1,827	155,615	2,683	5,901	(5,610)	158,589
Alberta	8,343	375,817	8,208	21,457	(7,378)	398,104
Saskatchewan	18,220	882,535	36,509	51,917	(10,146)	960,815
Manitoba	6,271	291,140	3,611	13,484	(6,591)	301,644
Ontario	13,858	976,083	12,886	35,609	(33,433)	991,145
Québec	6,347	417,598	1,152	14,921	(11,844)	421,827
New Brunswick	799	56,318	854	2,531	(1,714)	57,989
Nova Scotia	110	14,856	549	474	(996)	14,883
Prince Edward Island	763	48,510	1,045	2,123	(1,137)	50,541
Newfoundland	149	10,611	115	298	(308)	10,716
Canada	56,687	3,229,083	67,612	148,715	(79,157)	3,366,253
Adjustment to principal and interest relating to non-accrual loans		24,878	15,597	17,045		57,520
Loans receivable	**56,687**	**3,204,205**	**52,015**	**131,670**	**(79,157)**	**3,308,733**

LOANS APPROVED BY PROVINCE *(FARM CREDIT ACT)* ($000'S)

	1992-1993		1991-1992	
	Number	Net Amount	Number	Net Amount
British Columbia	161	26,712	181	30,522
Alberta	254	23,855	373	37,040
Saskatchewan	311	14,430	565	32,803
Manitoba	461	35,500	426	35,363
Ontario	772	102,001	827	117,161
Québec	426	45,975	462	52,921
New Brunswick	45	4,289	67	8,257
Nova Scotia	23	4,937	25	3,447
Prince Edward Island	89	11,602	66	6,963
Newfoundland	14	2,831	15	2,642
Canada	2,556	272,132	3,007	327,119

TO HAVE FCC'S LEGISLATION AMENDED TO PROVIDE THE CORPORATION WITH GREATER FLEXIBILITY TO CONTRIBUTE TO CANADIAN AGRICULTURE.

FCC's clients throughout Canada played a major role in helping to shape the game plan for the Corporation this past year. Feedback from all corners of the country, including the advice of staff and other industry representatives, led to identifiable progress in the six key corporate objectives set out in last year's annual report.

The *Farm Credit Corporation Act* was introduced in Parliament in November 1992 to replace outdated legislation passed in 1959. At year end, the new legislation was in the process of receiving parliamentary approval. Royal Assent was granted on April 2, 1993.

For our clients, the legislation will mean new sources of credit to finance farm diversification projects, more flexible methods of securing loans, increased lending limits and quicker responses to changing interest rates and market conditions. In a rapidly evolving agricultural economy, Canadian farmers will find it easier to match FCC services with their own increasingly sophisticated needs.

ROCK BÉDARD (RIGHT) DISCUSSES EXPANSION PLANS FOR HIS POULTRY OPERATION WITH HIS CREDIT ADVISOR, LOUIS PAYETTE.

TO ENSURE FCC'S VIABILITY BY ESTABLISHING AND MAINTAINING AN APPROPRIATE CAPITAL STRUCTURE REPRESENTED BY A DEBT-TO-EQUITY RATIO OF 7:1 BY MARCH 31, 1997.

FCC has made tremendous gains in financial operations in the 1990's. The Corporation earned net income of $20 million in 1992-1993. This third consecutive year of profit increased equity to $289 million. Debt outstanding was marginally reduced to $3.3 billion. As a result, the debt-to-equity ratio improved from 12.8:1 last year to 11.6:1 as of March 31, 1993. We continue to evaluate alternatives that will contribute to equity building so that the Corporation's capital structure can be strengthened.

Capital structure was considered a significant element in the July 1988 Financial Recovery Plan, which required contributions of $900 million by the federal government over a four-year period. Those funds were used to prepay an equivalent amount of Consolidated Revenue Fund debt. The last $100 million portion of that restructuring was received in 1991-1992.

Consequently, our financial viability requires further restructuring, continued progress in reducing arrears, increased marketing of property, and full cost recovery on new lending.

TO MAINTAIN FCC'S MORTGAGE PORTFOLIO IN EXCESS OF $3.4 BILLION OVER THE FIVE-YEAR PLANNING PERIOD.

FCC is the largest single lender of long-term farm mortgage credit in Canada, holding 27 per cent of that market. The restructuring and rationalization that has taken place in the farm community has seen our portfolio decline over the past decade from nearly $5 billion in 1984 to $3.3 billion as of March 31, 1993.

In 1992-1993, despite introduction of a new one-year term convertible mortgage, new lending of $277 million was more than offset by loan repayments and prepayments. However, total assets fell only slightly from $3.7 billion to $3.6 billion at March 31, 1993.

A stronger emphasis on marketing and expansion of the client base should help to some degree to offset declining market share.

The new *Farm Credit Corporation Act* which gives FCC more flexibility in developing a wide range of products and services, will also contribute to the growth of quality loans in FCC's portfolio.

4 TO STRENGTHEN LENDING CONTROLS BY IMPLEMENTING THE ENHANCED LENDING CONTROL FRAMEWORK.

With outstanding loans of $3.3 billion, properly assessing risk on new and current business is critical to the success of the Corporation and its clients. Since early 1992, five project teams have studied the lending practices within FCC and other public and commercial lending institutions. The goal is to maintain consistently high standards of credit quality across Canada, along with accurate information and reporting systems.

This new Lending Control Framework has resulted in specific recommendations in the five key areas under study:

credit risk philosophy and risk assessment;

credit information;

accountability;

delegation of authority;

performance reporting.

Under the new system, credit information, delegation of authority, and monitoring will be driven by the level of risk on each loan. Corporate and individual performances will be measured according to key result areas. These recommendations will lead to better loan decisions, improved client service and more efficient management of FCC's business.

GRAIN AND BEEF PRODUCER GARY LUBACHOWSKI (LEFT) PAUSES TO CHAT WITH HIS CREDIT ADVISOR, BRUCE KESSLERING, ABOUT THE EXCELLENT AUTUMN WEATHER AND AMPLE HARVEST.

TO REDESIGN INFORMATION SYSTEMS AND UPGRADE TECHNOLOGY THROUGH THE IMPLEMENTATION OF THE INFORMATION STRATEGIC PLAN IN ORDER TO PROVIDE FCC STAFF AND CLIENTS WITH TIMELY AND ACCURATE INFORMATION.

One in three FCC employees has direct daily contact with our farm customers. To make good loan decisions and provide excellent client service, our staff needs easier access to accurate information.

The Information Strategic Plan was set out as a general framework for keeping pace with advanced technology and its role in the delivery of FCC products and services. We are committed to ensuring that new information systems are client-driven and complement personal relationships between staff and clients.

Project Mainstream, which is scheduled for implementation by the fall of 1994, will enhance the loan management systems needed to control and manage FCC's business.

To date, the Mainstream project team has documented business needs and has defined systems requirements. Continued upgrading of software will ensure that credit advisors have the appropriate tools to serve clients throughout the life of the loan.

TO DESIGN AND IMPLEMENT THE HUMAN RESOURCE PLAN WHICH WILL ENSURE THE APPROPRIATE COMBINATION OF SKILLS AND QUALIFICATIONS TO MEET FUTURE AND ONGOING NEEDS.

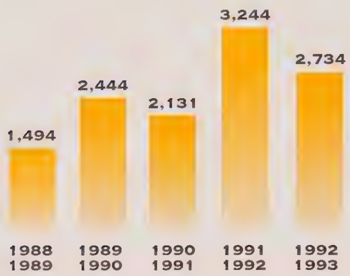
Preparation for our new mandate, development of information systems, and work on the Lending Control Framework, combined with the relocation of head office last year, put substantial pressure on the entire organization. To the credit of everyone involved, staff handled the transition extremely well.

In addition to meeting these challenges, FCC strengthened its client service orientation by focusing on effective training and recruiting. Added emphasis was given to the orientation of new staff members, along with technological and management training.

The design of the human resource plan was initiated in 1992-1993 and will be completed during the next planning cycle.

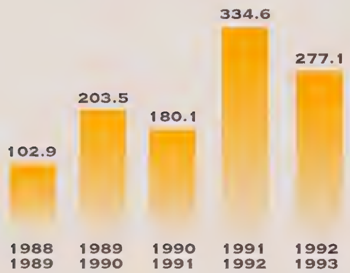
TOTAL NUMBER OF LOANS APPROVED

FCA and FSCA



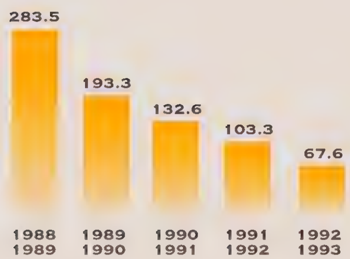
NET AMOUNT OF LOANS APPROVED

FCA and FSCA ($ millions)



LOAN PAYMENTS IN ARREARS

($ millions) as at March 31



Farm Credit Corporation loans are available for a variety of agricultural purposes. In most cases funds are used to purchase farmland, make permanent improvements, buy livestock and equipment, or to restructure debt. In general, we will finance any eligible project designed to enhance the growth and success of the farm operation.

LENDING ACTIVITY

Across Canada, we approved 2,556 loans under the *Farm Credit Act* in 1992-1993, and 178 loans under the *Farm Syndicates Credit Act.*

This 15 per cent decrease in *Farm Credit Act* lending compared to the previous year is generally attributed to weak grain prices, poor crop quality in the Prairie and Ontario regions, and expectations that farm income will stay flat and that governments will reduce farm program payments.

Net loan approvals last year totaled $272 million under the *Farm Credit Act*, down 17 per cent from the $327 million approved the previous year. Under the *Farm Syndicates Credit Act*, loan approvals declined to $5 million from $8 million the previous year. Debt consolidation (at 50 per cent) and land purchases (at 27 per cent) continued to account for most of the lending volume.

ARREARS

Across Canada, 92 per cent of FCC loan accounts were in good standing. To put this in perspective, arrears have declined from $284 million in 1988-1989 to $68 million in 1992-1993. Five years ago, more than 13,000 loans were in arrears. As of March 31, 1993, that figure had been reduced to 4,490 loans.

It has always been our philosophy to work with clients who find themselves in financial difficulty. Field staff work with these clients on an individual basis, analyze all reasonable alternatives and, where possible, recommend solutions to difficult financial situations.

NEW PRODUCTS

Two new loan products were introduced in response to the needs of our clients. FCC is the only agricultural lender offering a Shared Risk Mortgage to protect clients against volatile increases in interest rates. Rate changes are split equally between the client and FCC, with a two and a half per cent cap on increases.

This product was streamlined in 1993 and a 10 per cent annual prepayment privilege was introduced.

We also introduced a popular One-Year Convertible Mortgage. This low interest rate product offers flexibility since it can be converted at any time, without penalty, to a long-term FCC loan.

Our product portfolio includes a variety of long-term loans, covering terms of 3, 5, 10, 15 years or longer, with amortization periods of up to 29 years. This diversified product line is backed with quality service throughout the entire life of the loan.

We saw repeated evidence of our quality service last year when a very high percentage of clients with maturing loans chose to remain with us. Ninety-one per cent of clients who were offered extensions did in fact renew with FCC. This confirms that our interest rates are competitive and that we continue to provide services that are viewed favourably by our clients. We also continued to offer clients the benefit of an "early mortgage extension option" which allows for an early renewal and possible savings during periods of interest rate volatility.

PROPERTY MANAGEMENT

As reduction of unmanageable debt continues in the agricultural sector, FCC continues to acquire farm real estate. This factor, and the Equity-Building Lease Program, have resulted in an increase of $9 million in the total value of property held at year end to $232 million. Sales of real estate in 1992-1993 amounted to $43 million.

In cases where farmers qualified to lease back their land from FCC, the Corporation took in revenues of $33 million net of non-interest expenses, down from $34 million the previous year. Currently over 1500 farmers are participating in the Equity-Building Lease Program. Over the three-year period of the leases, clients can build sufficient equity to buy back part or perhaps all of their former property. As of March 31, 1993, funds held on behalf of farmers totaled $8 million.

The rate of property acquisition has continued to drop in recent years as farmers have restructured debts at lower interest rates instead of arranging lease backs. To reduce inventories, we will promote FCC loans to potential purchasers.

Due to the large quantity of land FCC manages, we undertook a study aimed at developing policy changes to aid in the administration of real estate holdings. The study will also recommend the best organizational approach to land management.

The Corporation anticipates a favourable judicial ruling in the *Saskatchewan Farm Security Act* case. The provincial legislation requires, among other things, that FCC lease back any foreclosed property to the borrower. This has restricted sales of land in Saskatchewan (approximately 900,000 acres) already transferred to FCC. The impact on operations is uncertain because the restriction on sales means no gain or loss can be realized. At year end, two lower court decisions had supported FCC's position and the matter was headed for further appeal.

THE ENVIRONMENT

A special project team was created in September 1992 to develop guidelines for assessing environmental risk and to determine issues of relevance to the Corporation.

Strengthened legislation at the federal, provincial and municipal levels means land owners and lenders may be held jointly responsible for damage. Anyone with a legal interest in real property could be exposed to liability.

Our philosophy commits FCC to investing in environmentally sound enterprises, and to taking all reasonable care in the execution of our business to ensure good husbandry of the environment.

The overall goal is to support the federal government's Green Plan and to ensure that actions taken by the Corporation contribute to the protection of Canada's natural resources.

DAVID CARLISLE (RIGHT) AND HIS FCC CREDIT ADVISOR, ED GILES, PAUSE TO ADMIRE THE LUSH GREEN ALFALFA CROP THAT WILL PROVIDE QUALITY FEED FOR DAVID'S DAIRY CATTLE.

CLIENT SERVICE STANDARDS

FCC concentrated much of its energies on providing its customers with the best personalized service in the agricultural lending industry.

To reinforce that goal we presented in May 1992, a national set of client Service Standards to staff across Canada to ensure we are always at our best with clients, the general public and fellow employees.
This initiative followed an extensive survey of client needs, including discussion groups with farm clients and staff in all regions of the country.

Also last spring, as a result of recommendations from staff, we introduced Service Plus, an employee recognition program. We like to think of it as our own version of "most valuable player" awards. Employees are encouraged to select co-workers for Service Plus recognition as a result of positive contributions to clients or other staff.

We also appointed a National Resources Service Team, representing the six regions and head office, to evaluate the new client Service Standards and the Service Plus program.

HEAD OFFICE RELOCATION

The relocation to Regina of the Corporation's head office was completed in September. The official opening took place in October.

FCC now occupies five floors in the Agriculture Place office complex.

Approximately 100 new employees were hired (half from Saskatchewan) to replace those who could not relocate.

The arrival of new employees and a $9 million local payroll will be a tremendous long-term benefit to the community and its economy. The head office relocation cost approximately $19 million over a two-year period. Most of the expense was charged to operations in 1991-1992, with $5 million included in 1992-1993 operations.

HUMAN RESOURCES

The successful relocation of our head office also demonstrated exemplary corporate teamwork and positive morale.

This came at a time when staff took on such ambitious projects as the development of the Lending Control Framework, the advancement of the Project Mainstream business systems update, and the preparation for the new *Farm Credit Corporation Act* and its impact on operations.

The true strength of FCC lies in the quality and professionalism of its employees.

The ongoing challenge from a human relations standpoint is to ensure that staff possess the generalized and specialized skills needed to deliver new and enhanced products to the Canadian farmer. This balance will require progressive training and development in areas such as farm credit analysis, interpersonal skills and use of new technology.

The specific skills our staff must acquire will flow from the implementation of the new legislation and the Lending Control Framework. Further, FCC employees pride themselves in being agile enough to respond effectively and quickly to changes in the business environment.

FCC EMPLOYEES BARBARA FOX (LEFT), DIANE PHILLIPS AND BRUNO SOUCY TEST NEW COMPUTER INFORMATION MANAGEMENT SYSTEMS DESIGNED TO IMPROVE CLIENT SERVICES. EASY ACCESS TO CUSTOMER ACCOUNT STATUS AND THE ABILITY TO BRING NEW PRODUCTS TO THE MARKET MORE QUICKLY ARE SOME OF THE BENEFITS.

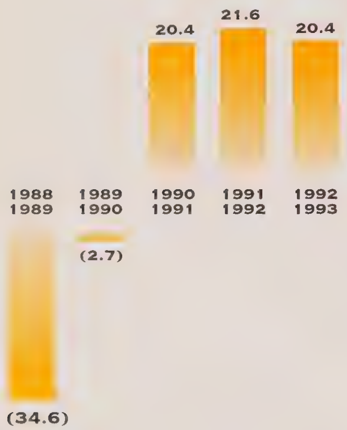
NET INCOME

The Corporation's financial position was strengthened during 1992-1993 by a third consecutive year of positive net income. Consistent with a primary financial objective of achieving cost recovery, net income was $20 million, compared to $22 million in 1991-1992. This represents a return on average assets of 0.56 per cent, in comparison with the return of 0.58 per cent reported in 1991-1992.

The net income performance also contributed to an improvement in the financial position of FCC, with the debt-to-equity ratio improving from 12.8:1 at the end of 1991-1992 to 11.6:1 at March 31, 1993.

NET INCOME

($ millions) for the year ended March 31



INTEREST INCOME

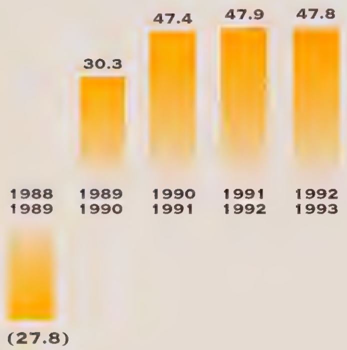
Interest income for the year was $353 million, compared to $370 million for 1991-1992. The $17 million decrease is a reflection of lower average loans receivable balances compared to the previous year and lower interest rates on new lending and short-term investments. The decline in interest income was offset by a reduction in interest expense, which was attributable to lower average outstanding debt and lower interest rates.

In reporting interest income, FCC excluded non-accrual interest, which represents the interest deducted from gross interest income for loans classified as non-performing. The interest thus excluded amounted to $13 million in 1992-1993. Although lower than the $21 million excluded in 1991-1992, the amount still represents an unacceptably high level.

The Corporation is continuing efforts to work with farmers in financial difficulty and is attempting to move non-accrual loans through to satisfactory resolution. In fact, the total amount owing on non-accrual loans was reduced this year, from $445 million at the start of the year to $338 million at year end, an improvement of 24 per cent.

NET INTEREST INCOME

($ millions) for the year ended March 31



REAL ESTATE

There was significant activity in the Corporation's real estate portfolio during the year, with the result that the value of property held at year end increased by $9 million. Acquisitions of $61 million, sales of $43 million, and the write-down of the real estate

portfolio value by $8 million, resulted in a year end value of $232 million compared to $223 million at the start of the year. The *Saskatchewan Farm Security Act* has had the effect of reducing planned property sales and increasing leased acreage. Almost 90 per cent of property held was under lease at year end, the vast majority to previous owners.

LEASE REVENUE

Net lease revenue from real estate was a significant source of income again in 1992-1993, as many settlements of Farm Debt Review Boards involved lease back arrangements and a number of farmers took advantage of the Equity-Building Lease Program. Net lease and other revenue from real estate was $33 million in 1992-1993, down from $34 million the previous year. These revenues are reported after deducting operating expenses necessary to maintain the properties, but do not consider the funding cost of carrying the properties, which is included in interest expense.

ADMINISTRATION

Administrative expenses for 1992-1993 totaled $55 million, almost unchanged from the $56 million incurred in 1991-92. Major projects to develop FCC's information and loan accounting systems were expanded during the year.

INTEREST RATES AND MARGINS

Reflecting financial market conditions, FCC's borrowing and lending rates declined steadily over the first half of 1992-1993, increased marginally during the third quarter, then continued to decline during the final quarter.

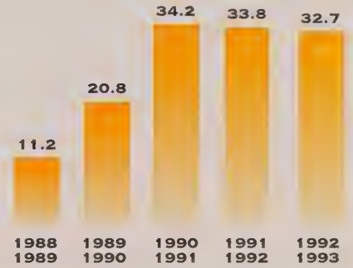
The net interest margin, as a percentage of average total assets, has improved to 1.31 per cent from 1.28 per cent the previous year.

ASSETS

Total assets were $3.6 billion at year end, almost unchanged from 1991-1992. Net loans receivable made up 88 per cent of total assets, compared to 91 per cent the previous year. Real estate acquired in settlement of loans made up 6 per cent, the same as the previous year. Cash and short-term investments comprised 5 per cent, compared to 3 per cent the year before.

NET LEASE REVENUE AND OTHER INCOME FROM REAL ESTATE

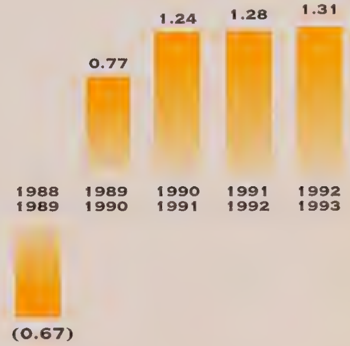
($ millions) for the year ended March 31



FIVE-YEAR TERM LENDING RATE (%)

NET INTEREST MARGIN (%)

(net interest income/average assets)
for the year ended March 31

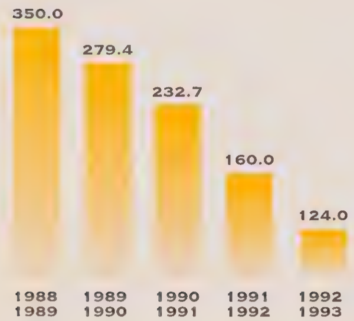


RETURN ON ASSETS (%)

(net income/average assets)
for the year ended March 31

ALLOWANCE FOR LOAN LOSSES

($ millions) for the year ended March 31



Gross loans receivable totaled $3.3 billion, down by 6 per cent from the $3.5 billion at March 31, 1992. New lending was more than offset by loan repayments and prepayments, and transfers of loans to real estate.

LOAN LOSS ALLOWANCE

As in past years, FCC set aside an allowance for anticipated loan losses due to writeoffs and declines in real estate values. The allowance has been reduced from $160 million at the start of the year to $124 million at year end, a decline of 23 per cent.

FUNDING ACTIVITY

During the year, the Corporation borrowed a total of $296 million (down from $516 million in 1991-1992) in long-term debt to fund its portfolio of mortgages and property holdings.

Long-term principal debt repayments amounted to $386 million during 1992-1993 and year-over-year total indebtedness, consisting of short-term and long-term debt outstanding, decreased by $88 million to $3.3 billion.

The Corporation utilizes diversified funding alternatives to fund its capital requirements including short-term promissory notes, its own Medium and Long-Term Note Program as well as government funding sources. During the year, the Corporation continued to seek attractive funding opportunities in the capital markets and $31 million or 10 per cent of the Corporation's total long-term funding was obtained from its Medium and Long-Term Note Program. While continued access to government funding sources has been negotiated, the Corporation will continue to seek alternative cost effective funding opportunities. It is anticipated that the Corporation will enhance its capital market presence in the future at attractive terms commensurate with its AAA sovereign credit rating.

FARM CREDIT LOAN PRODUCTS

PRODUCTS	FEATURES	BENEFITS
MEDIUM AND LONG-TERM LOANS	• Fixed interest rate terms of 3, 5, 10, 15 years or longer, with amortization periods of up to 29 years. • Flexible payment options (annual, semi-annual or monthly) • Annual 10 per cent pre-payment option at no penalty on the five-year conventional loan • Chattel mortgage or general security agreement acceptable for intermediate-term loans (3-10 years) to purchase equipment	• Farm cash flow planning made easier with fixed payments • Peace of mind during periods of interest rate volatility • Quick delivery of funds
SHARED RISK MORTGAGES (NON-CONVERTIBLE)	• Six-year term with rate adjustments shared equally by borrower and FCC • Ceiling of 2 1/2 per cent on increases • Amortizations up to 29 years • Variable payment plan	• Cushioned impact from volatile interest rates • Stability by minimizing exposure to fluctuating interest rates • Especially beneficial when interest rates rise – also advantageous when interest rates fall
ONE-YEAR CONVERTIBLE MORTGAGE	• One-year term, convertible to 3, 5, 10, 15-year term or longer	• Possibility to lock in for a longer term at any time • Flexibility while still retaining the lower interest rate of a short-term loan • Options kept open as interest rates fluctuate • Convertibility to a longer term without penalty

FCC's single industry focus allows it to develop unique and specialized loan products for farmers. We make loans to new and established farmers across Canada with or without off-farm income, regardless of the size of their farm operation. For many years we have provided stable long-term credit and other innovative loan programs.

Clients can expect rapid service, with flexible repayment options.
Our professional Credit Advisors are also happy to provide counselling during the loan application and approval process. Credit Advisors have access to a sophisticated computerized farm financial analysis system. They are always available to give financial advice to clients throughout the life of the loan.

In 1992-1993 our planners set out to study the range and scope of innovative financial products that might assist our farm clients even further. At the top of the list was the identification of products that could emerge from the new legislation that broadens FCC's mandate.

FCC staff are proud to contribute their time and energy to community activities throughout Canada. Corporate sponsorship of farm shows, industry seminars, speaking tours, scholarships and other special events, is a vital element of our public affairs programs. As a major presence in rural Canada, FCC is a strong believer in the educational and social values of farm families and the communities they live in.

1) Terry Garrett (left), Office Assistant and Marge Clarke, Credit Advisor, hosted a colorful FCC float taking part in a parade in Kindersley, Saskatchewan.

2) Credit Advisor Lois Thompson Hudon (far right) with winners from the Western Canadian Classic Junior Dairy Show in Brandon, Manitoba.

3) The 1992 National 4-H Volunteer Leaders' Conference included individuals from across Canada. FCC was proud to participate. From left to right:
Heather Piermantier, Saskatchewan
Karen Seymour, Ontario
Shirley Tolton, Manitoba
Ted Young, FCC Public Relations Officer
Trent Dorrance, Saskatchewan
and Linda Hildebrandt, Manitoba.

4) FCC donated an award for the Farm Financial Management Course. Here Wayne Thomson, district manager in Chatham, Ontario, presents it to Mark Richards.

5) The Russell Beef & Barley Festival, October '92, included a Barley competition. Winners or representatives of the winners gathered to receive their awards. From left to right, Grant Bily; Kent Fingas; Eric Olson, presenter from FCC, Virden; Brandy Laycock; and Randy Fingas.

6) The kick-off to 4-H's 75th Anniversary was quite an event in Charlottetown. Joining the celebrations, from left to right: Pat Doohan from FCC; the Honourable Edward Clark, former Minister of Agriculture; and Louise Andrews, President of the P.E.I. 4-H Council.

7) FCC likes to encourage excellence. Doug Janzen, Credit Advisor from Lacombe, Alberta, presents 4-H member Karen Tulloch with second prize for Senior Public Speaking.

The Board of Directors has approved six key corporate objectives for the planning period of 1993-1998. They are:

1. TO ENSURE THE CORPORATION'S FINANCIAL VIABILITY, BY ACHIEVING BREAK-EVEN OVER THE PLANNING PERIOD.

Key components will include new funding instruments and sources of capital, maintaining revenue generating assets in excess of $3.4 billion, and working toward a more appropriate capital structure.

GURMAIL SIDHU (LEFT), RASPBERRY GROWER IN BRITISH COLUMBIA'S FRASER VALLEY, WITH DOUG WILSON, HIS CREDIT ADVISOR.

2. TO DEVELOP A MARKETING FRAMEWORK, BY SEPTEMBER 1993, WHICH ADDRESSES THE NEEDS OF FCC.

Issues include national coordination of marketing efforts, market research and product diversification, product selection and projection of corporate image.

3. TO STRENGTHEN OPERATIONAL EFFECTIVENESS THROUGH THE BALANCE BETWEEN EMPOWERMENT OF OUR HUMAN RESOURCES AND CORPORATE CONTROLS.

The Lending Control Framework project includes specific recommendations to strengthen lending practices. As well, an effective real estate management policy will be implemented.

4. TO ACQUIRE NEW INFORMATION SYSTEMS AND UPGRADE TECHNOLOGY IN A PHASED MANNER, IN ORDER TO MEET THE BUSINESS INFORMATION REQUIREMENTS OF THE CORPORATION.

The first phase of the Project Mainstream application system is planned for delivery in September 1993. Further phases will be delivered in the fall of 1994.

5. TO STRENGTHEN CLIENT SERVICE STANDARDS SO THAT OUR CLIENTS' EXPECTATIONS ARE MET OR EXCEEDED.

Staff are given the tools and training they need to provide excellent service to their clients. We will seek client feedback to keep us on track. Staff will be encouraged through incentive programs to continue to bring forward creative ideas for discussion and use.

6. TO DESIGN AND IMPLEMENT THE HUMAN RESOURCE PLAN WHICH WILL ENSURE THE APPROPRIATE COMBINATION OF QUALIFICATIONS AND SKILLS TO MEET FUTURE AND ONGOING NEEDS.

The staffing process will be redesigned. A national Long Service Award Program will be established. The human resource plan continues to reflect Canada's Official Languages Policy, employment equity and multiculturalism.

CREDIT ADVISOR GRANT PEDERSON (LEFT) VISITS SASKATCHEWAN FARMERS DONALD AND LESLIE HAM ON THEIR CANARY SEED FARM.

MANAGEMENT'S REPORT

MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements of Farm Credit Corporation and all information in this annual report are the responsibility of the Corporation's management and have been reviewed and approved by the Board of Directors. The financial statements include some amounts, such as the allowance for loan losses and the valuation of real estate acquired in settlement of loans, that are necessarily based on management's estimates and judgment.

The financial statements have been prepared in accordance with accounting principles which are generally accepted in Canada. Financial information presented elsewhere in the annual report is consistent with that contained in the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements, management maintains financial and management control systems and practices designed to provide reasonable assurance that transactions are authorized, assets are safeguarded and proper records are maintained. The system of internal control is augmented by internal audit which conducts periodic reviews of different aspects of the Corporation's operations.

The Board of Directors is responsible for ensuring management fulfills its responsibilities for financial reporting and internal control and exercises this responsibility through the Audit Committee of the Board, which includes a majority of Directors who are not employees of the Corporation. The Audit Committee meets with management, the internal auditors and the Auditor General of Canada on a regular basis, and the auditors have full and free access to the Audit Committee.

The independent auditor, the Auditor General of Canada, is responsible for auditing the transactions and financial statements of the Corporation and for issuing his report thereon.

James J. Hewitt
Chairman and
Chief Executive Officer

Max Pierce
Senior Vice-President, Finance and
Chief Financial Officer

Regina, Canada
May 28, 1993

AUDITOR GENERAL OF CANADA

VÉRIFICATÉUR GÉNERAL DU CANADA

AUDITOR'S REPORT

TO THE MINISTER OF AGRICULTURE

I have audited the balance sheet of Farm Credit Corporation as at March 31, 1993 and the statements of operations and deficit and changes in cash position for the year then ended. These financial statements are the responsibility of the Corporation's management. My responsibility is to express an audit opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at March 31, 1993 and the results of its operations and the changes in its cash position for the year then ended in accordance with generally accepted accounting principles. As required by the *Financial Administration Act*, I report that, in my opinion, these principles have been applied on a basis consistent with that of the preceding year.

Further, in my opinion, the transactions of the Corporation that have come to my notice during my audit of the financial statements have, in all significant respects, been in accordance with Part X of the *Financial Administration Act* and regulations, the *Farm Credit Act* and the by-laws of the Corporation.

L. Denis Desautels, FCA
Auditor General of Canada

Ottawa, Canada
May 28, 1993

Farm Credit Corporation

BALANCE SHEET

as at March 31, 1993

	1993	1992
	(000's)	
ASSETS		
Cash and short-term investments	**$ 181,116**	$ 98,690
Accounts receivable	**16,742**	17,419
Loans receivable, net of allowance for loan losses of $124,000 (1992 - $160,000) (Notes 3 and 4)	**3,184,733**	3,343,190
Real estate acquired in settlement of loans (Note 5)	**231,944**	222,595
Office equipment and leasehold improvements	**8,452**	5,061
	$3,622,987	$ 3,686,955
LIABILITIES		
Accounts payable and accrued liabilities	**$ 8,815**	$ 7,641
Short-term notes	**144,571**	144,828
Downpayments on real estate (Note 6)	**11,472**	6,926
Provision for head office relocation (Note 7)	**6,974**	11,391
Provision for employee termination benefits	**3,936**	4,192
Deferred loan fees	**6,093**	2,598
Loans payable (Note 8)	**3,152,560**	3,241,249
	3,334,421	3,418,825
EQUITY		
Contributed capital (Note 1)	**1,118,333**	1,118,333
Deficit	**(829,767)**	(850,203)
	288,566	268,130
	$ 3,622,987	$3,686,955

Approved:

The accompanying notes are an integral part of the financial statements.

James J. Hewitt
Chairman and
Chief Executive Officer

Don Swenson
Director

Farm Credit Corporation

STATEMENT OF OPERATIONS AND DEFICIT

for the year ended March 31, 1993

	1993	1992
	(000's)	
INTEREST INCOME		
Loans receivable	**$ 336,183**	$ 356,941
Short-term investments	**16,876**	12,982
	353,059	369,923
INTEREST EXPENSE		
Loans payable	**294,757**	300,636
Short-term notes	**10,464**	21,368
	305,221	322,004
NET INTEREST INCOME	**47,838**	47,919
Provision (recovery of provision) for loan losses (Note 4)	–	(12,796)
Net interest income after provision for loan losses	**47,838**	60,715
Lease and other revenue from real estate, net of non-interest expenses of $4,347 (1992 - $4,748)	**32,734**	33,765
Other income	**1,743**	2,126
NET INCOME BEFORE NON-INTEREST EXPENSES	**82,315**	96,606
Administrative expenses	**55,255**	55,716
Head office relocation (Note 7)	**5,426**	13,300
Income taxes - large corporations tax (Note 9)	**1,198**	6,024
NET INCOME FOR THE YEAR	**20,436**	21,566
Deficit at beginning of the year	**(850,203)**	(871,769)
DEFICIT AT END OF THE YEAR	**$(829,767)**	$(850,203)

The accompanying notes are an integral part of the financial statements.

Farm Credit Corporation

STATEMENT OF CHANGES IN CASH POSITION

for the year ended March 31, 1993

	1993	1992
	(000's)	
OPERATING ACTIVITIES		
Net income for the year	**$ 20,436**	$ 21,566
Items not involving cash		
Provision (recovery of provision) for loan losses	–	(12,796)
Change in accrued interest receivable	**26,278**	21,163
Change in accrued interest payable	**(795)**	(3,743)
Change in provision for head office relocation	**4,417**	11,391
Other	**3,053**	5,026
CASH PROVIDED BY OPERATING ACTIVITIES	**53,389**	42,607
INVESTING ACTIVITIES		
Loans receivable disbursed	**(294,503)**	(339,728)
Loans receivable repaid	**368,442**	325,699
Proceeds from disposal of real estate	**40,056**	45,532
Other	**5,149**	(3,232)
CASH PROVIDED BY INVESTING ACTIVITIES	**119,144**	28,271
FINANCING ACTIVITIES		
Loans from Canada	**265,000**	515,500
Loans repaid to Canada	**(335,732)**	(338,548)
Loans from capital markets	**30,882**	–
Loans repaid to capital markets	**(50,000)**	(269,500)
Increase in contributed capital	–	100,000
Change in short-term notes	**(257)**	(161,716)
CASH USED IN FINANCING ACTIVITIES	**(90,107)**	(154,264)
INCREASE (DECREASE) IN CASH AND SHORT-TERM INVESTMENTS	**82,426**	(83,386)
Cash and short-term investments at beginning of the year	**98,690**	182,076
CASH AND SHORT-TERM INVESTMENTS AT END OF THE YEAR	**$181,116**	$ 98,690

The accompanying notes are an integral part of the financial statements.

NOTES TO FINANCIAL STATEMENTS

March 31, 1993

1. THE CORPORATION

(a) Authority and objectives

Farm Credit Corporation ("the Corporation") was established in 1959 by the *Farm Credit Act* as the successor to the Canadian Farm Loan Board and is an agent Crown corporation named in Part I of Schedule III to the *Financial Administration Act*. The Corporation makes and administers farm loans under the authority of the *Farm Credit Act* and the *Farm Syndicates Credit Act*, and administers programs as requested by the Government of Canada ("the government").

On April 2, 1993, the *Farm Credit Corporation Act* ("the new Act") was proclaimed into law and replaced the *Farm Credit Act* and the *Farm Syndicates Credit Act*, both of which are repealed. The new Act continues the Farm Credit Corporation with its head office in Regina, Saskatchewan, under an expanded mandate that includes broader lending and administrative powers.

The Corporation's role, as clarified in the Corporate Plan approved in 1988, is to provide mortgage credit and complementary financial services to Canadian farmers on a break-even basis and, when called upon by the government, to deliver specific government programs on a cost-recovery basis.

(b) Contributed capital

Contributed capital of the Corporation constitutes capital payments received from the government. The statutory limit is $1,125 million (1992 - $1,125 million), and is unchanged under the new Act.

(c) Limits on borrowing

The *Farm Credit Act* limits the aggregate amount outstanding of the principal borrowings by the Corporation pursuant to the Act to twenty-five times the contributed capital of the Corporation. At March 31, 1993, the Corporation's outstanding borrowings under this Act, comprising short-term notes of $145 million and loans payable of $3,153 million, were 2.95 times the contributed capital of $1,118 million (1992 - 3.03 times the contributed capital of $1,118 million).

The *Farm Syndicates Credit Act* limits the loans from Canada pursuant to the Act to $25 million. At March 31, 1993, the Corporation's loans from Canada under this Act were $12 million (1992 - $5 million).

Revised limits in the new Act restrict the total of direct and contingent liabilities to twelve times the equity of the Corporation. This limit can be increased to fifteen times equity with the prior approval of the Governor in Council.

(d) Real estate acquired in settlement of loans

The *Farm Credit Act* restricts the length of time which the Corporation can hold a property to five years from the date of acquisition, or such further period as the Governor in Council may prescribe. The new Act does not contain similar restrictions on holding properties.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Revenue recognition

Interest income is recorded on the accrual basis until such time as management determines that a loan should be classified as non-accrual. A loan is classified as non-accrual when:

1) principal or interest is six months past due, unless the loan is well secured, or

2) circumstances indicate doubt as to the ultimate collectibility of principal or interest.

When a loan is initially classified as non-accrual, uncollected interest recognized in the year is reversed against interest income and, where necessary, uncollected interest recognized in previous years is provided for in the allowance for loan losses.

Interest payments on non-accrual loans are recorded as interest income when received where it has been determined that the loan does not require a specific provision for loss; otherwise, they are credited to principal.

Non-accrual loans return to accrual status when, in management's opinion, the ultimate collection of principal and interest is reasonably assured.

Lease and other revenues from real estate are recorded when earned.

Loan fees received as compensation for activities which are integral to a specific lending arrangement are deferred and recognized as interest revenue over the term of the resulting loan. Other loan fees are recorded as other income on the same basis as the related costs.

(b) Allowance for loan losses

The allowance for loan losses represents management's best estimate of probable losses on the loans outstanding at the end of the year in light of current conditions. It has a specific and a general component.

The specific component is determined based on a loan-by-loan review of undersecured loans. Specific provisions are established for individual loans, where circumstances indicate doubt as to the ultimate collectibility of principal or interest, to value these loans at the lower of their recorded investment or the estimated net realizable value of the underlying security for the loans.

The general component, which is prudential in nature, is established to provide for losses on loans which cannot yet be identified on a loan-by-loan basis. In addition, as a single industry lender, the Corporation is particularly subject to adverse economic trends and other risks and uncertainties affecting certain agricultural regions or sectors. Accordingly, management has also considered the impact of such factors as land value trends, federal and provincial government programs, international trade negotiations, and future commodity prices and climatic conditions in establishing the general component of the allowance. However, future agricultural and economic conditions are not predictable with certainty and, therefore, actual loan losses may vary from management's estimate.

The government has decided to make resources available to reimburse the Corporation for some concessions it will grant in 1993-94 as a result of its participation in the Farm Debt Review process. The types of concessions to be made through the process, the extent of resources to be made available to the Corporation, and the extent to which they will reduce the Corporation's loan losses are not presently known. They are, therefore, not included in establishing the allowance for loan losses.

Actual loan losses, write-downs of acquired real estate, and losses on the sale of real estate are charged to the allowance while recoveries are credited to the allowance. Adjustments of the allowance to the level regarded by management as being appropriate are applied to operations.

(c) Real estate acquired in settlement of loans

Real estate is recorded at the lower of the recorded investment in the loan outstanding or the estimated net realizable value of the underlying security for the loan at the time of acquisition. Subsequent declines in estimated net realizable value are charged to the allowance for loan losses in the year in which they occur.

(d) Farm Debt Review process

Amounts received from the government on behalf of farmers for concessions granted by the Corporation under the Farm Debt Review process are applied as if they had been received directly from the farmers.

(e) Office equipment and leasehold improvements

Office equipment and leasehold improvements are recorded at cost less accumulated amortization. Amortization is provided over the estimated useful lives of office equipment and leasehold improvements according to the following methods and rates:

	Methods	Rates
Equipment and furniture	Declining balance	20%
Computer equipment and software	Straight-line	20%
Leasehold improvements	Straight-line	Lease term plus the first renewal option.

(f) Translation of foreign currencies

Loans and related interest payable in foreign currencies are hedged by currency conversion agreements and are translated into Canadian dollars at the rates provided therein. The differences between the ultimate amounts payable at the contracted rates and the cash proceeds of the debt issues are amortized on a straight-line basis and are charged to interest expense over the lives of the obligations.

(g) Financial instruments

In order to reduce interest rate risk and funding costs, the Corporation uses various types of off-balance sheet derivative financial instruments such as, forward rate agreements, currency swaps and interest rate swaps. The cost of these instruments is included in interest expense.

(h) Pension plan

Employees participate in the Public Service Superannuation Plan administered by the Government of Canada. The Corporation's contributions to the plan are limited to matching the employees' contributions for current service. These contributions are expensed during the year in which the services are rendered and represent the total pension obligations of the Corporation.

(i) Employee termination benefits

On termination of employment, employees are entitled to benefits provided for under their terms of employment. The liability for these benefits is recorded as the benefits accrue to the employees.

(j) Income taxes

The Corporation follows the tax allocation method of providing for income taxes. The cumulative differences between tax calculated on such a basis and taxes currently payable are essentially timing differences and result in deferred income taxes. The Corporation has deferred income tax benefits which have not been recorded and will only be recognized when there is virtual certainty of realization.

3. LOANS RECEIVABLE

	Annual interest rate (%)	1993	1992
		(000's)	
Loans to farmers, secured by mortgages	5 – 15	**$3,175,084**	$3,333,738
Loans to farm syndicates, secured by notes	7 – 14 5/8	**13,512**	11,683
Loans receivable from real estate sales, secured by agreements for sale or mortgages	5 – 14 5/8	**33,496**	35,486
		3,222,092	3,380,907
Accrued interest - current		**58,695**	84,781
- arrears		**27,946**	37,502
		3,308,733	3,503,190
Less: Allowance for loan losses		**124,000**	160,000
		$3,184,733	$3,343,190

At March 31, 1993, the Corporation had 3,374 loans representing $338 million of loans receivable classified as non-accrual (1992 - 4,209 representing $445 million). During the year, interest not recognized on non-accrual loans amounted to $13 million (1992 - $21 million). The accumulated interest not recognized on non-accrual loans outstanding at March 31, 1993 amounted to $58 million (1992 - $73 million).

4. ALLOWANCE FOR LOAN LOSSES

The summary is as follows:

	1993	1992
	(000's)	
Balance at beginning of the year	**$ 160,000**	$ 232,665
Write-offs, net of recoveries	**(27,648)**	(40,336)
Declines in value of real estate	**(8,352)**	(19,533)
Provision (recovery of provision) for loan losses	**–**	(12,796)
Balance at end of the year	**$ 124,000**	$ 160,000
Specific allowance	**$ 24,000**	$ 47,000
General allowance	**100,000**	113,000
Balance at end of the year	**$ 124,000**	$ 160,000

5. REAL ESTATE ACQUIRED IN SETTLEMENT OF LOANS

The summary is as follows:

	1993	1992
	(000's)	
Balance at beginning of the year	**$222,595**	$224,711
Acquisitions	**60,728**	66,329
Disposals	**(43,027)**	(48,912)
Declines in value of real estate	**(8,352)**	(19,533)
Balance at end of the year	**$231,944**	$222,595

Real estate represents farm property acquired in the process of administering loans receivable.

Real estate under long-term leases may be subject to renewal at the expiry of the original lease term. Lease maturities by fiscal year are as follows:

	1993	1992
	(000's)	
Not currently leased	**$ 15,819**	$ 30,074
1994	**93,797**	56,469
1995	**71,055**	84,699
1996	**51,273**	51,353
	$231,944	$222,595

6. DOWNPAYMENTS ON REAL ESTATE

	1993	1992
	(000's)	
Equity-building fund	**$ 7,849**	$ 4,068
Downpayments on real estate sales	**3,623**	2,858
	$ 11,472	$ 6,926

The Corporation may, through the Equity-Building Lease Program, lease real estate acquired in settlement of loans back to the former owner ("the lessee"). In addition to lease payments, the lessee accumulates funds over the term of the lease by making additional payments to the Corporation. At the discretion of the lessee, these additional payments may then be applied against the purchase of real estate from the Corporation.

7. HEAD OFFICE RELOCATION

The Corporation relocated its head office to Regina, Saskatchewan, effective September 1992. Estimated expenses associated with the move were charged to operations in 1991-1992. Adjustments to the original estimate, arising primarily from increased costs resulting from the lease for the former head office building in Ottawa, have been charged to operations in the current year.

8. LOANS PAYABLE

	Annual interest rate (%)	1993	1992
		(000's)	
Loans from Canada, secured by notes			
Farm Credit Act	5 7/8 – 11 3/8	**$2,405,915**	$2,481,551
Farm Syndicates Credit Act	7 5/8 – 11	**11,983**	5,123
Loans from capital markets, secured by notes *Farm Credit Act* Payable in:			
U.S. dollars (375,000,000)	9 – 10 3/4	**507,987**	507,987
Swiss Francs (100,000,000)	11	**59,666**	59,666
Canadian dollars	5 3/4 – 12	**85,882**	105,000
		3,071,433	3,159,327
Accrued interest		**81,127**	81,922
		$3,152,560	$3,241,249

Amounts due by fiscal year are as follows:

	1993	1992
1993	$ –	$ 383,775
1994	**621,931**	602,632
1995	**401,902**	355,065
1996	**312,975**	312,975
1997	**529,684**	526,011
1998	**354,779**	249,769
1999 and thereafter	**850,162**	729,100
	3,071,433	3,159,327
Accrued interest	**81,127**	81,922
	$3,152,560	$3,241,249

In response to certain interest rate risk exposures in the portfolio, the Corporation is renegotiating the terms of some of its loans from Canada.

9. INCOME TAXES

(a) Timing differences of approximately $177 million are available to the Corporation as at March 31, 1993. These have not been recognized in the accounts since they will not be used in the foreseeable future. They result primarily from differences between the provision for loan losses charged to operations and the amount claimed for income tax purposes.

In addition, the loss carry-forward for income tax purposes which has not been recognized in the financial statements amounts to $577 million and expires on the dates indicated:

	(000's)
March 31, 1996	$ 97,000
1997	480,000
	$577,000

During the current year the Corporation will incur no income tax expense, other than the large corporations tax ("LCT"), due to the utilization of $187 million in loss carry-forwards.

(b) Income taxes payable by the Corporation relate to the LCT, which may be offset against any current or future surtaxes payable. The Corporation has no surtax currently payable.

As a result of amendments being considered to the *Income Tax Act* and related Regulations, the Corporation expects that its LCT for the 1992-1993 taxation year will be limited to $1.2 million instead of the $6.5 million that would otherwise be payable.

10. COMMITMENTS TO FARMERS

As at March 31, 1993, loans to farmers approved but not disbursed amounted to $8 million (1992 - $58 million). These loans were approved at interest rates from 8% to 11.75%. It is expected that the majority of these loans will be disbursed within the six-month period ending September 30, 1993.

11. OPERATING LEASES

Future minimum payments by fiscal year on operating leases for premises, with initial non-cancelable lease terms in excess of one year, are as follows:

	(000's)
1994	$ 3,756
1995	3,451
1996	2,926
1997	2,578
1998	2,177
1999 and thereafter	5,991
	$20,879

These leases generally provide for payment by the Corporation of real estate taxes and operating expenses in excess of the amounts established at the commencement of the lease term.

12. GOVERNMENT PROGRAM

Farm Debt Review process

During the year the Minister of Agriculture was authorized to make contributions to farmers, payable to the Corporation. These payments are based on concessions that the Corporation has granted to farmers under arrangements made pursuant to the *Farm Debt Review Act*. The Corporation is reimbursed at the time farmers realize the benefits of the concessions, which may be over a period as long as five years. These concessions cease if the farmers fail to meet their commitments.

The government has decided to make resources available to reimburse the Corporation for some concessions it will grant in 1993-1994. Since the inception of the Farm Debt Review process, the Corporation has offered $253 million in concessions and billed $214 million to the government, of which $51 million was billed in the current year. The committed difference of $39 million will be due and received over the next five years as farmers meet their commitments and thereby realize the benefits of the concessions.

13. SUBSEQUENT EVENT

On May 27, 1993, the Corporation reached an agreement with the province of New Brunswick to purchase a portfolio of farm loans for consideration totaling $37.4 million.

14. CONTINGENCY

During the year, a claim was made against the Corporation related to the enactment of provincial legislation requiring the lease back of foreclosed property to the borrower. The Corporation successfully defended its position at the trial level and anticipates it will be successful in defending against appeals made to the Saskatchewan Court of Appeal. Therefore, it is management's opinion that there will be no material financial consequences to the Corporation as a result of this litigation.

15. COMPARATIVE FIGURES

Certain 1992 comparative figures have been reclassified to reflect the presentation adopted in 1993.

CORPORATE DIRECTORY

MEMBERS OF THE BOARD

The Board of the Corporation has seven members appointed by the Governor in Council. The Chairman and Vice-Chairman of the Board are also officers of the Corporation. The Chairman is the Chief Executive Officer and, as such, directs and supervises the operations of the Corporation.

LEFT TO RIGHT

C. GERALD PENNEY, CA, VICE CHAIRMAN

DON SWENSON, SASKATCHEWAN

GEORGE [illegible], ONTARIO

DESMOND GEORGE, BRITISH COLUMBIA

JAMES J. HEWITT, FCMA, CHAIRMAN

JEANNINE CARON-[illegible], FCA, QUEBEC

FRED MCCAIN, CA, NEW BRUNSWICK

** Member of the Audit Committee*

CORPORATE EXECUTIVE

James J. Hewitt
Chairman and Chief Executive Officer

C. Gerald Penney
Vice-Chairman and Chief Operating Officer

SENIOR MANAGEMENT

Ian Disbery, Q.C.
Senior Vice-President, General Counsel
Corporate Secretary

Terry Kremeniuk
Senior Vice-President, Research and Planning

Max Pierce
Senior Vice-President, Finance and
Chief Financial Officer

Terry Craig
Vice-President, Lending Operations

Pierre Laflamme
Vice-President, Corporate Audit

Louise Neveu
Vice-President, Administration

Blake Walker
Vice-President and Treasurer

Ian McCrea
Controller

REGIONAL VICE-PRESIDENTS

George Jones
Alberta/British Columbia

Russ Holm
Saskatchewan

Marshall Stachniak
Manitoba

Bob Aumell
Ontario

Jacques Doran
Québec

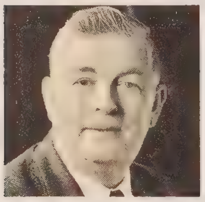
John van Abbema
Atlantic

ADVISORY COMMITTEE MEMBERS

The Advisory Committee is appointed by the Minister of Agriculture to advise him and the Corporation on lending policy matters. Most members are farmers or operators of agricultural businesses.

Garnet Rickard
Chairman, Ontario

Edward Mazer
Manitoba



Leon Bremner
New Brunswick

J. Harvey Gjesdal
Saskatchewan

Jack Cumming
Ontario

Keith Barrett
Prince Edward Island

Don Knoerr
British Columbia

William A. Verhagen
Alberta

CHAIRMEN OF APPEAL BOARDS

Appeal Boards are established in each province to hear appeals from farmers who are dissatisfied with the Corporation's decision on their loan applications. The Appeal Boards allow declined applicants the opportunity to have their cases reviewed by an impartial group of competent farmers. During the year 26 appeals were heard and, based on Appeal Boards' recommendations, FCC modified its decision on one application.

The Corporation will continue to offer the right of appeal to applicants under the new legislation.

E.T. (Ted) Osborn
British Columbia

George Templeton
Alberta

Donald Johnson
Saskatchewan

Kenneth Lyle Young
Manitoba

Edward J. Mailloux
Ontario

Raynald Côté
Québec

Vacant
New Brunswick

Thomas Meredith
Nova Scotia

Wilbert MacKenzie
Prince Edward Island

Dennis Galway
Newfoundland

REGIONAL OFFICES	DISTRICT OFFICES	FIELD OFFICES
ALBERTA/ BRITISH COLUMBIA 101 St. Building Suite 1550 10250-101st Street Edmonton, Alta. T5J 3P4 (403) 495-4488 *Yukon Territory is served through the Edmonton Office*	Grande Prairie, Kelowna, Lacombe, Lethbridge, Vegreville, Westlock	Abbotsford, Athabasca, Barrhead, Brooks, Calgary, Camrose, Dawson Creek, Drumheller, Edmonton, Evansburg, Fairview, Falher, Hanna, Medicine Hat, Olds, Peace River, Stettler, St. Paul, Vermilion, Wainwright, Wetaskiwin
SASKATCHEWAN Suite 900 1801 Hamilton Street Regina, S4P 4L5 (306) 780-5610	North Battleford, Prince Albert, Regina, Saskatoon, Swift Current, Yorkton	Assiniboia, Carlyle, Humboldt, Kindersley, Meadow Lake, Moose Jaw, Rosetown, Tisdale, Weyburn, Wynyard
MANITOBA 400-5 Donald Street Winnipeg, R3L 2T4 (204) 983-4039	Brandon, Portage la Prairie, Winnipeg	Arborg, Carman, Dauphin, Killarney, Morden, Neepawa, Virden
ONTARIO Unit 201 450 Speedvale Avenue West Guelph, N1H 7G7 (519) 821-1330	Chatham, Guelph, Lindsay, Nepean, Walkerton, Woodstock	Barrie, Campbellford, Casselman, Essex, Goderich, Kingston, Lambeth, Listowel, New Liskeard, North Bay, Owen Sound, Simcoe, Stratford, Vineland, Wyoming
QUÉBEC Édifice Champlain Bureau 2000 2700, boul. Laurier, C.P. 3600 Sainte-Foy, G1V 4C7 (418) 648-3993	Sainte-Foy, Saint-Hyacinthe, Sherbrooke,	Alma, Arthabaska, Drummondville, Gatineau, Granby, Joliette, Rimouski, Roberval, Saint-Georges de Beauce, Saint-Jean, Saint-Jérome, Trois-Rivières, Valleyfield
ATLANTIC Suite 230 1133 St. George Boulevard Moncton, N.B., E1E 4E1 (506) 851-6595	Charlottetown, Moncton	Fredericton, Grand Falls, Kentville, St. John's, Summerside, Sussex, Truro, Woodstock

CREDITS

The article on page five was reprinted from the March 1993 issue of PROFARM magazine courtesy of the Western Wheat Growers Association.

FCC's 1992-1993 Annual Report was designed and produced by Brown + Associates Advertising, Regina, Saskatchewan.

Electronic prepress and separations by True Color Graphics Ltd., Saskatoon, Saskatchewan.

Printed by PRINTWEST Communications

In keeping with FCC's commitment to environmental responsibility, this report is printed on recycled paper with canola-based inks.

Printed in Saskatchewan, Canada

FOR MORE INFORMATION CONTACT:

Farm Credit Corporation

1800 Hamilton Street,

Regina, Saskatchewan

S4P 4K7

Telephone: (306) 780-8100

La version française de ce rapport est

à votre disposition sur demande.

FCC SCA

Farm Credit Corporation
Canada

Société du crédit agricole
Canada